Passing it On

Facilitating farmland transfer to the next generation

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The U.S. Department of Agriculture (USDA) estimates that 70 percent of the farmland in the U.S. will change hands in the next 20 years, and that 89 percent of farmers have no plan for what will happen to their land. Without such plans, farms are at greater risk of going out of business, falling fallow during protracted struggles over ownership or disposition, or being lost forever to commercial or residential development.

Such planning is often avoided because it seems overly complex, because the issues at stake are often very personal and private, and because the financial implications can be daunting. However, farmers have a growing number of professionals and resources at their disposal to assist with developing plans that can help ensure that such transfers can be made in ways that are respectful of their long-term wishes for the farm and beneficial to both the exiting and new farmers.

Keeping it in the family

American farmers are aging - the average age of U.S. farmers is 57 years old, compared with 45 years old in 1974 and 39 years old in 1945. Fully 40 percent of farmers today are older than 55 years old, and the fastest-growing group of farmers is those 65 years old and older, according to the USDA. When farmers start thinking about not farming anymore, whether due to retirement, illness or death, many still look first to their own families to continue the farm business.

Even in cases where farmers have heirs who want to continue operating the farm, the transition is almost never as simple as handing over the keys or leaving the farm to a surviving child. “Willing the farm could even be the absolute worst choice,” says Kathy Ruhf, executive director of Land For Good, which offers education and assistance to farm seekers, farm families, landowners and communities in New England on issues of farmland access, tenure and transfer. There could be estate tax issues, other family members could be unhappy with the decision, or the heir could be significantly older or uninterested in farming by the time the farmer passes away and the will is executed.

“It’s not just a question of assets,” says Ruhf. “It’s about the transfer of management and ownership of business considerations as well. If a successor doesn’t have control of the business until their parent passes away, that compromises planning for the future of the farm, and the heir might not be fully motivated in their efforts to keep the farm going. There are lots of issues that should really be clarified during the exiting farmer’s lifetime.”

Ruhf adds, “The hard issues are the soft issues.” Turning over a farm to the next generation is more about family relations than it is about transferring title to the land. Setting goals as a family, clarifying values and communicating well are all critical to a successful transition. Once those issues are taken care of, she says, the actual mechanics are not that complicated, with the help of an attorney or financial planner to guide the family through the various options of how to structure the transfer, taking taxes and other technical details into consideration.

Communication is particularly important, she says, because the best way to ensure a successful transition is to have a significant amount of time for both generations to be involved in working the farm. As farmers are living longer and often not necessarily wanting to retire, or not being able to afford to do so, a good succession plan will likely include a period where the older and younger members of the family overlap, and the farm needs to generate income, and possibly even provide residences, for more people.

Looking beyond the family

According to the USDA, the transfer of farms from one generation of a family to the next is becoming less common.

The 2007 Census of Agriculture reported that current farmers purchased 53 percent of their farmland from unrelated sellers, and that only 25 percent of the land was inherited. While farmers could once count on their children taking over the farm, more and more farm children are not choosing farming as their vocation.

When an exiting farmer has no heirs and wants to make an effort to ensure that their farm stays in operation, there are a number of resources that can help connect them with farmers looking for land. The number of new farmers in New England has been growing rapidly, and the primary obstacle they have identified is access to land, so there is no shortage of beginning farmers seeking farmland and even mentors. Another possibility is that farmers may have an employee or a neighboring farmer who would be interested in taking over the farm.

While the structure of such a transfer might not be all that different from one within a family, the personal dynamics can be challenging in different ways, and a successful plan usually needs to be a living, flexible document. "It's important to match people with similar values," states Ruhf. "That value might be 'We want what's best for the farm,'" or it could be wanting the farm to continue producing the same crops in the same way. "The exiting farmers have to share what's important to them, but it's good for them to be as open and flexible as possible."

Gradual transfers are almost always better than an all-at-once change in ownership, says Ruhf, so there's room for adjustments to the plan and time for all parties to get to know each other and adapt to any changes in how the farm operates, particularly if the two farmers will be sharing operating responsibilities or living on the farm together for any length of time. Changes have to be smoothly introduced to be sensitive to the exiting farmer, she says, and the exiting farmer also has to understand that the next owner may have new ideas and that the industry may have changed since they adopted their ways of doing things. That kind of letting go can be challenging, she adds.

Every situation is unique, says Ruhf, so bringing in experts to help with the process early, even as much as 10 to 15 years before the planned transfer, is critical. "Successful Farm Transfer Planning," a manual published by Land For Good, is a resource specifically for farmers without identified successors. It walks farmers through the steps of assessing their values, goals and situation, finding a successor, and bringing on the successor. Manuals such as this, or having a coach or advisor, often helps farmers realize that there were questions and opportunities they may not even have considered.

Preserving farms for the long term

The value of succession planning is particularly evident in New England, where the market pressures to convert agricultural land to residential and commercial uses are huge. Rhode Island, Massachusetts and New Hampshire were in the top five states in the nation in terms of conversion of agricultural land to developed land between 1982 and 2007, a period when the U.S. lost 23 million acres of farmland. Less than 5 percent of the land in New England remains in cropland and pasture. The price of farmland in New England is significantly higher than elsewhere in the country - in some areas it's greater than 10 times the national average.

Ruhf says that most farmers who are leaving farming have at least some level of commitment to ensuring that their farms stay in operation. Transfers within families are usually below market prices, and even when a nonrelated farmer takes over, the selling farmer is often willing to structure the sale with an easement such as selling development rights to the state or a land trust, which protects the land for the long term and also makes the property more affordable for a new farmer.

Government programs can also play a role in facilitating or encouraging succession planning. For example, farm viability programs in Massachusetts and Vermont offer to help cover the costs of succession planning. States could also consider giving farms that have a succession plan in place additional points for eligibility for competitive programs like those that purchase development rights.

Exiting farmers often have legitimate fears and anxieties that they're not inclined to talk about, says Ruhf. Land For Good and a number of other organizations and institutions offer coaching and facilitation services to help the process along, as well as tools and resources that can walk families step-by-step through the transition process. The Farm Transfer Network of New England is a collaborative effort among the area's land-grant universities to make such resources easily available to farmers online.

Coaches in particular have become a valuable part of this process, Ruhf says. They can facilitate discussions in ways that help farmers consider and address issues they might not otherwise think about, and can connect farmers with professionals who can help with everything from tax advising to land use planning to business consulting. By developing a long-term relationship with the farmer, a coach can help ensure that specific goals are met along the way and that all parties stick to agreed-upon timelines. Most importantly, the coaches come to the table without an agenda of their own, other than to help the farmer find a way to realize their vision for the future of their farm.

"It's important to assemble the right team that can be supportive, so that the family isn't doing this alone," says Ruhf. "The first thoughts when considering transferring a farm should be about the future, opportunities and a legacy, not about death and taxes."

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For more information, contact Land For Good
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