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Keeping the Family Informed: Estate and Succession Planning

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A prior article, "Updating your Estate and Succession Plan" (available here) discussed why a prior estate plan might not produce the results you expected due to law changes. This article discusses the reaction your heirs might have if they only learn of your plans at the reading of the will.

To have a successful transition between the generations, it is important that everyone involved is aware of your plan. While some heirs may think the plan is inequitable, it is better if they discuss with you rather than taking it out on the other heirs after your death. There is a saying that nothing can break up a family faster than money.

> Example 1 John and Mary have three grown children, Bob, Tom, and Betsy. Bob graduated from the University of Illinois and is a successful doctor. Tom is a college agricultural graduate and worked as a bank loan officer until John's stroke. Tom then came back to operate the farm for John and Mary for the next fifteen years. Betsy is married to a farmer and lives in the neighboring county. Tom was still operating the farm when John and Mary died.
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> John and Mary never discussed their estate plan with the kids who first learned of the plan after their parent's deaths. The plan left the farm and chattels, valued at $800,000, to Tom. Bob and Betsy were given equal shares of the remaining assets value of $75,000. Bob and Betsy believe Tom coerced his parents to allocate the assets in that manner. Consequently, there are no longer any family Christmas dinners.
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> There would likely have been less animosity towards Tom if John and Mary had discussed the plan before their deaths. Bob and Betsy would have known it was not Tom's doing. If Tom had not come back to operate the farm, the total estate at the time of John's stroke would have been $175,000.

Discussing the disposition of assets at death is never easy. There may be concerns that the heirs will not approve of the plan. However, if parents make a video of their estate plan when they write the will, to be played after death, it may prevent dissension between the heirs.

Parents need to know what the heirs plan to do when they are gone.

Example 2 Fred and Alice have two sons that operate the farm with them. Their succession plan is to incorporate the farm and give each son equal shares after their deaths. Having never discussed the plan with the sons, they do not know the sons have agreed they will never farm together. They only operate the farm now to make their parents happy. Dissolving the corporation after their deaths can result in a substantial tax liability. If the parents want to split the farm assets equally, it could be better accomplished if two separate entities are formed and each son inherited an entire entity rather than one-half of a combined entity.

It is important to train the heirs. The family members that will inherit the farming operation must be qualified if the farm is to survive. Parents should not assume the management reins can transfer without any glitches because the heir has lived on the farm. The farming heir has to be schooled in all aspects of running the farm. This includes dealing with crop inputs, understanding how to best market the crop, and how to keep the books so timely management decisions can be made.

The parents should understand that mistakes will occur during the transition period. However, the heirs will learn from these mistakes.

There are two important points to this article. One is that there must be communication between all of the family members before a succession plan is developed. The second is that there is no single plan that will work for every family.

The University of Illinois Tax School and Farm Credit are holding an estate and succession planning conference, Protecting the Family Farm Legacy, in Normal, Illinois, on June 24, 2013. If you want to learn more about dealing with both farming and nonfarming heirs, selection of the best entity for a succession plan, financing your retirement, understanding estate terminology and various types of trusts, you are encouraged to attend this upcoming conference.

Details are available at: http://www.taxschool.illinois.edu//legacy