

Agricultural Legacy Planning: Securing Your Farm's Future

Estate Planning

PLANNING
Illini

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College of Agricultural,
Consumer &
Environmental Sciences

UNIVERSITY OF ILLINOIS URBANA-CHAMPAIGN

Johnson Farms

1,400 acres of corn/soybeans



Adam (43)
Wife Jennifer and 2 children
Lives and works on the farm



Jocelyn's mom that lives on the farm →



Janine
87

Jocelyn (65)
and Ernie (75)

↙ Paid for home



Mark (40)
Single
Partner at Law Firm
Lives in Chicago



Mary (38)
High school teacher
Lives on farm
Steve works on farm
has 4 children

Johnson Farms

1,400 acres of corn/soybeans

Land and equipment
held in an LLC

90% Ernie & Jocelyn
10% Adam



Jocelyn (65)
and Ernie (75)

IRA account

\$150,000

Ernie savings

\$45,000

Operating Account

\$250,000

Land Value 14 to 18 million dollars (\$12,000/acre)

~\$3 million Cost Basis

Current LLC debts

\$400,000 equipment loan

\$250,000 operating loan

Current Estate Plan

- 📈💰 **Ernie & Jocelyn have Simple Wills**
 - 📈💰 **All property to one another at first death**
 - 📈💰 **Split evenly between children at second**
- 📈💰 **IRA beneficiaries are one another**
- 📈💰 **No life insurance**
- 📈💰 **No significant prior gifts**



Scenario 1

Johnson Farms

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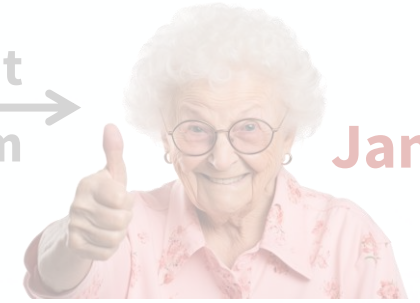


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Scenario 1

Fair isn't always Equal; Equal isn't always fair

At second death

Mark inherits

**1/3 of LLC shares holding
1/3 of land & equipment**



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Single

Partner at Law Firm

Lives in Chicago

Tension with siblings







May force liquidity event

Scenario 1

Fair isn't always Equal; Equal isn't always fair

 **Quick Fix:** Execute new wills & consider life insurance or liquid bequest Mark

Longer term solution

-  Conversation with Mark about future inheritance
-  Value business
-  Update Estate Plan to consider state & federal taxes
-  Begin gifting strategy today
-  Based on conversation
 - consider an Irrevocable Life Insurance Trust
-  Health considerations – second to die perm policy

Scenario 2

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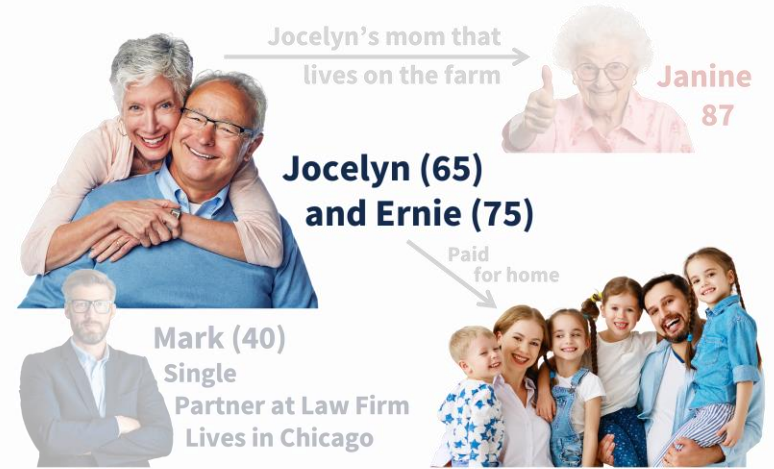
Stepping away

Begin gifting shares today two generations

- 📈 Family meeting
- 📈 Firm valuation
- 📈 Minority ownership discounting
- 📈 Paid CEO/CFO roles
- 📈 Reduce taxable estate G1
- 📈 Consider G2 planning
 - 📈 Buy/sell policies Adam & Steve



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Scenario 3

Johnson Farms

1,400 acres of corn/soybeans



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Lives and works on the farm**



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Scenario 3

Stepping away

 **Accident happens Ernie Passes
Jocelyn two months later**

 **Valuation of LLC at death \$18,000,000 (90% is \$16,200,000)
+ IRAs and cash & Investments \$650,000 = \$16,850,000**

 **Federal Estate Tax Due \$1,144,000**

 **IL Death Tax Due \$1,864,000**

 **All siblings inherit 1/3 of what's left**

 **Note or Sell**



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**Scenario 4:
Contributions and
Equity Conversation**

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Adam
manages daily operations
and has invested in
farm ownership



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**Jocelyn (65)
and Ernie (75)**



Mark
provides valuable
business advice



Mary
Steve contributes labor but
doesn't have ownership

House provided by
Ernie and Jocelyn

Scenario 4

Family Meetings

- 📈 Adam & Steve on same page
 - 📈 Assigned roles & compensation
 - 📈 Gifting plan and strategy in place
- 📈 Mary & all grandchildren
- 📈 Mark feels included (does not mean equitable)
- 📈 New estate plans to reflect outcome – with haste



Adam manages daily operations and has invested in farm ownership



Mark provides valuable business advice



Mary Steve contributes labor but doesn't have ownership
House provided by Ernie and Jocelyn

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