



*"Keeping the Family Farm in the Family"*

## **Instructions for Estate Equalization Workbook**

### **Step One: Determine Farm and Non-Farm Assets and Liabilities**

This step is fairly self-explanatory. Take your bank statement or put some numbers down in the columns. It does, however, show you the difference between farm assets and non-farm assets. Note: Use the current sale value of your land here – not the bank's estimate of what they need to cover your loans.

### **Step Two: Determine the Value of the Participating Heir's Contribution**

**Prior assets** are assets you may have owned before your farming child came back to farm. Try to remember how many acres you had, what equipment you had, etc. Also, use current sale value of the land in this section

**Assets Added** are all the assets you have added on since your farming child came back to work with you. As always, use the current market value for land.

**Percentage Attributable to 2<sup>nd</sup> Generation** is the area where you determine how much of the Assets Added was aided by your child's participation in the farm operation. You can put in how many years s/he has farmed/ranched with you and then put a percentage down representing how much of the Assets Added column is attributable to his participation. For example, 14 years at 3% = 42%. Multiply this by the Assets Added.

**Percentage of Prior Assets** is a place where you feel the farming child also contributed to the growth and increase in value of the land you owned even before they came back to farm full-time. Put a percentage in there and show the value of this participation.

Add 4) and 6) together and this is the amount you feel should go to the farming child for his or her years of service and contribution to the family farm.

**Offsets** is the section where you make deductions for the help you have given this child but not to the other children. Perhaps you borrowed money on a down payment. If it was repaid, no entry. If the farm child used your machinery to start and you didn't charge for the use, then maybe you want to throw something in there. If you just traded labor for machinery use, then no entry.

**Assets Acquired Solely by 2<sup>nd</sup> Gen** – In some cases, the child is worth more than the parents or has significant assets of their own at a very early age. This just bears some consideration when you are talking with your other children. It's tough to explain to them how the farming child was 'mistreated' when he's worth more than a million dollars and he's only in his early 30's.

### **Step Three: Division of Assets**

Here we have three options.

**Option One) Dividing Everything Equally.** This option, you will put the Total Farm Assets and divide them amongst your children, as well as the Non-farm assets divided equally. Will the farm child survive having to buy out or rent from siblings someday?

**Option Two) Giving All the Farm Assets to the Farm Child.** In this box, we go the other extreme and show what happens if the farming child(ren) get all of the Total Farm Assets and the Non-farming children share your Non-farm Assets. How do these amounts feel to you?

**Option Three) Farm Child Receives Farm Participation Share.** Under this box, we start with the farm child receiving his share based on his years of service and appropriate percentage from Page 2. Then the farm and non-farm assets are divided equally. This should give the farm child a huge boost from Box One. However, it's still likely to give us a balance owing to the non-farm heirs.

### **Step Four: Possible Solutions for Farm Equity**

#### **One) Rent the Land from Non-Farm Children**

Rent the farmland assets at \$\_\_\_\_\_/acre average times number of acres #\_\_\_\_\_  
from non-farm children for a total of \$\_\_\_\_\_ rent per year to be paid by  
the farm child. (Note: farm Child will never own the non-farm siblings farm property.)

#### **Two) Farm Heir Buys Land from Non-Farm Children**

If the farming child uses a simple contract for deed at five percent (5%) interest over twenty years it will be \$80.25 for each \$1,000 on contract. The non-farm heirs will own \$\_\_\_\_\_ in land  $\times \$80.25/\$1,000 = \$$ \_\_\_\_\_ payment for 20 years assuming 5% interest. Total Lifetime Acquisition Costs will equal \$\_\_\_\_\_ (total payments). You may use page 3 for different values for contract for deed. (Note: Commercial rates may be higher/lower).

#### **Three) Pre-purchase land with Rent Credit**

This is for the farmer/rancher who has paid enough in rent to pay for the rental land already and want to give their children a break. Agree upon a set purchase price today. All rents paid by farm heir to parents is deducted from this value. For example, rents of \$60,000 x 10 years = \$600,000. Farm heir would deduct all rents paid (\$600,000) from the amount of the total farm value before calculations are made.

#### **Four) Leveraged Dollars**

Leveraged dollars are somewhere between seven cents (7 cents) to forty cents (40 cents) lifetime cost on the dollar and are paid today.

**For more information, visit our website at [www.KeeptheFamilyFarm.com](http://www.KeeptheFamilyFarm.com).**