We are committed to providing specialized resources, insights and guidance about retirement planning to owners of farms and ranches.

TOPICS

2 Introduction
3 Family succession planning
5 Farm and ranch valuation
6 Estate planning
7 Family limited partnership strategies
9 Legacy preservation
10 U.S. Bank Specialty Asset Management, Farm and Ranch group
Introduction

With constant uncertainties, working the land is both tough and risky. In addition to being laborers, farmers and ranchers must be mechanics, engineers, scientists, meteorologists and most importantly, business people. You need to understand debt, negotiate contracts, make payments to suppliers and employees, determine effective pricing, understand bookkeeping and prepare taxes.

Farmers and ranch owners have additional considerations when planning for retirement. You may be attached to the land and generally expect the sale of land and equipment to fund your retirement. While selling land could create the income you need, it means transferring the farm or ranch to the next generation or selling it to other farmers or ranchers. One of the major challenges for succeeding generations is affording and securing farm and ranch land. These types of choices can be emotionally difficult, as the land may have been in the family for a long time.

Some key issues farm or ranch owners often consider:

— A farm or ranch owner’s balance sheet likely includes short- and long-term debt.

— Wealth is often concentrated in land, buildings, and equipment.

— Expenses and depreciation often generate annual losses.

— Participation in Social Security and other types of retirement plans may be limited.

— The transition to new ownership could be gradual, depending on circumstances.

Investment and insurance products and services are:

Not a Deposit  Not FDIC Insured  Not Guaranteed by the Bank  May Lose Value  Not Insured by Any Federal Government Agency

Please see disclosures on back.

Family succession planning

If you wish to keep the farm or ranch in the family, you may need a transition period with both generations working together. We believe it may be reasonable to put a plan in place as many as 10 years before the actual transition happens.

Here are some questions that both generations need to consider:

- Are succeeding family members (including spouses) dedicated to farming or ranching?
- Is the current owner ready to share control?
- Do the different generations share a common vision?
- Can family members work side-by-side?
- Can the farm or ranch realistically support every family member interested in participating in the operation?
- Do you need an agreement to help assure fair treatment of non-participating family members?
- Is there enough liquidity to ease the transition?
- Will the current owners remain in their current home? If so, where will the next generation live?

A strong plan can triumph over statistics.

70% of first generation operations do not successfully transition to the next generation.

90% of second generation operations do not make it to the third generation.

96% of third generation operations do not survive to a fourth generation.3

---

Farming is still an industry of family-owned businesses. Family farms account for 98 percent of all farms in the U.S. and 86 percent of its total agricultural output.\(^1\)

Small family farms (those with less than $250,000 in annual sales) make up 88% of all U.S. farms.\(^2\)

---

**Family succession planning (cont.)**

When your family wants to keep the farm but the next generation is not ready or can’t commit to farming, consider these questions:

- What is the plan to transition from an operating farm entity to an income-producing investment?

- Are you willing and able to become the managing landlord or do you need someone else to manage and protect your interests?

- Is there sufficient income and land value to support your family’s overall needs and objectives?

- Can you find a tenant committed to maintaining the farm and stewarding the land, or would you be better served by engaging a professional farm manager?

- Does the earning potential from selling the farm exceed potential income from ongoing ownership and management and related capital expenses?

If you decide to sell the farm or ranch, consider these questions:

- How do you determine what the correct selling price should be?

- What are the potential tax implications in selling?

- Are there ways to help minimize the taxes due?

- What marketing and selling process may be the most supportive and profitable?

- How will you invest the proceeds to provide for your future?

---

\(^1\) CSREES, USDA 2008.

\(^2\) Ag Facts, Farm-equipment.com
Farm and ranch valuation

As with any business, it’s critical to know the value of your farm or ranch in order to plan. The valuation process can be difficult and may require a specialist who understands your geographic marketplace and can make an assessment based on: amount of acreage farmed, the value of machinery or equipment in operation, the amount of outstanding loans, and the crop or livestock the farm is able to bring to market.

The appreciation of farmland values from 2008–2013 may add to your retirement planning considerations. Estate tax consequences could result, so you may need to identify strategies to help reduce gift and estate taxes.

Following the financial crisis recovery, crop and farmland prices soared. The average value of crop land in the U.S. increased substantially (26.8%) from 2008–2012.³

Due to lower current commodity prices, farmland values appear to have retreated from the 2013 high. However, even if land values retreat some, the existing farm value may still result in estate taxes.

Past performance is not an indication of future results.

³ Source: NASS Land Value Summary, August 2012.
Estate planning

Another consideration when a farm or ranch makes up a large portion of your estate is having sufficient liquidity to cover estate taxes. If you’ve also leased water or mineral rights, the increased value of your rights may suddenly put your total estate above the threshold for the federal estate tax exemption. Adjustments to your estate plan may help minimize tax liability and ensure sufficient estate liquidity to cover taxes, final expenses and administrative costs.

It’s not always easy to sell all or part of a farm or ranch in order to generate cash, and doing so may be undesirable if you want the farm to remain in the family. Planning can help you identify solutions to liquidity concerns.

The following strategies may help address your estate planning concerns:

Working with your attorney to create a trust that seeks to provide important benefits that are not available by simply naming beneficiaries in your will. These benefits can include:

— In most cases, assets held in trust avoid probate, which also means that the transfer may remain a private matter.

— Trusts, if structured correctly, may also provide protection from creditors of beneficiaries.

— You, as grantor of a revocable trust, may retain control of the assets through trust terms, even after death. This control lets you direct the trust to distribute income from the trust’s assets to your children either now or in the future.

— When using an irrevocable trust, assets may be removed from your estate, which can help minimize estate taxes.

Establishing a family limited partnership to help facilitate the transfer process.

Incorporating life insurance to help provide liquidity.

Nearly 60% of farmers do not have an up-to-date estate plan and nearly 89% do not have a farm transfer plan.¹

¹ University of Minnesota, CSREES, USDA 2008.
Family limited partnership strategies

Working with your attorney to establish an entity that qualifies for a gifting discount for gift tax purposes, such as a family limited partnership, is a strategy that can facilitate operational planning and the efficient transfer of family wealth. It also may help reduce gift and estate taxes, while accommodating business succession planning.

When a farm owner transfers his/her property into a family limited partnership, the owner receives partnership interests in return. These interests can be divided and transferred to family members, which can eliminate the need to split up the property in order to pass it on to multiple people.

A family limited partnership can also be a vehicle for managing farmland operations and transitioning farm asset ownership from one generation to the next. The older generation retains management control until the younger family members have proven their ability to manage the farm.

41% of U.S. total land area is farmland (938.28 million acres). In 1900 the average farm size was 147 acres, compared to 441 acres today.²

² Agriculture Council of America, 2014 National Ag Day.
POTENTIAL ADVANTAGES:

- With the partnership in place, you can create an operating agreement mechanism that lays out management goals and functions before, during and after the transition. Management control can be designed for any family member who will actively operate and manage the farm.

- Transition ownership to both managing and non-managing family members while providing equitable treatment.

- Ability to discount partnership units for gift tax purposes. Discounts can be applied to non-management/control units to account for their lack of control and marketability. This can help enable the transition of wealth and helps reduce gift and estate tax liability.

- A more efficient gifting mechanism than the gifting of acres and or fractional acres of farm real estate.

POTENTIAL DISADVANTAGES:

- The loss of the potential tax benefits of a step up in cost basis, when assets are gifted prior to the death of the owner. With a family limited partnership, assets may be gifted prior to death, and the original cost basis that applied to the owner carries over to the person receiving the assets. This can be an issue if there are plans to sell some or all of the farmland in the near term. Be sure to analyze the savings in gift/estate taxes versus the potential capital gain tax savings if assets are passed on at the owner’s death.

- The administrative challenges and requirements of creating another entity; including filing income tax returns and maintaining other paperwork.

Life insurance options

Another tool to help pay estate tax and/or to facilitate the equitable distribution of a farm or ranch to non-participating family members is the use of life insurance.

A properly-structured life insurance strategy allows for the potential of income-tax free death benefits that can be used to help offset final expenses and/or provide for wealth transfer to non-participating family members.

Care must be taken to ensure that the value of the estate is not increased by insurance proceeds received after the death of the owner.

Guarantees are backed by the claims paying ability of the issuing insurance company.

Family limited partnership strategies (cont.)
Legacy preservation

If your goal is to transition your farm or ranch to the next generation, you need to plan ahead for the process of transferring ownership, income and management responsibilities. Topics to discuss with your family and your financial, tax and legal professionals should include:

- **Transferring the farm or ranch as a gift:** Gifts using annual gift tax exclusions and/or lifetime gift tax exemptions may be a means of gradually giving the farm or ranch over to succeeding family members while you continue to work alongside them and pass on your expertise.

- **Selling the farm or ranch on an installment basis:** One way to support the income of both generations is to have succeeding family members pay yearly installments to the current owners in exchange for future ownership. Assets such as equipment may also be sold on an installment basis.

- **Utilizing buy-sell agreements:** In the case of the unexpected departure of an active owner, a previously drafted and funded buy-sell agreement may be a way to provide a source of income for succeeding family members to continue to purchase the farm or ranch from the estate of the insured. The proceeds from the sale may also be a source of income for a surviving spouse.

- **Setting up a wealth equalization strategy:** While you may want to benefit all your heirs, it may not be practical to distribute all farm or ranch assets equally. You may want to consider setting up an Irrevocable Life Insurance Trust (ILIT) to help provide a death benefit equal in value to the farm or ranch inheritance for non-participating children.

- **Professional management of your property:** When the farm or ranch functions as a legacy, and the next generation cannot commit to the demands of running it, it may be wise to consider professional management services.
U.S. Bank Specialty Asset Management, Farm and Ranch group

U.S. Bank’s Specialty Asset Management, Farm and Ranch group, works with families, individuals and ownership entities through the transition process of retirement. They offer proactive management and specialized resources for all farm and ranch assets, while helping you with both short- and long-term financial goals. Each farm or ranch situation is unique, and they strive to help meet the requirements of your particular ownership situation.

This team of professionals is strategically located around the country, and each team member combines his/her formal education in agricultural-related fields with hands-on farm and ranch management experience. They use their understanding of the industry to provide guidance on:

- Crop and land management
- Lease negotiations and lease management
- Government and environmental regulations
- Crop marketing
- Government programs, enrollment and management
The Farm and Ranch group seeks to provide management services, resources, and technology that may help maximize the value of your unique farm or ranch operation while potentially protect the quality of your land including:

- A personal farm or ranch manager to help plan and oversee operations
- Choosing an appropriate farm operator
- Arranging appropriate lease terms
- Developing and monitoring a crop plan
- Preparing and submitting all required government documentation
- Marketing the crop

After the close of each year, they provide you with a comprehensive summary of your farm or ranch operations, detailing the locations, acreage and yield of each crop, itemized expenditures and income. They also review opportunities to potentially improve performance in the coming year.

Proactive management to assist with short- and long-term financial goals can help lift the stress of day-to-day management from family members, while potentially generating market value for your land investment.

At this critical time of life, a supportive financial professional team may help facilitate a smooth transition to retirement, managing the real challenges presented by retirement today.
Investment and Insurance products and services are:

| Not a Deposit | Not FDIC Insured | Not Guaranteed by the Bank | Not Insured by Any Federal Government Agency |

This material is based on data obtained from sources we consider to be reliable. It is not guaranteed as to accuracy and does not purport to be complete. This information is not intended to be used as the primary basis of investment decisions.

Because of individual client requirements, it should not be construed as advice designed to meet the particular investment needs of any investor. It is not a representation by us or an offer or the solicitation of an offer to sell or buy any security. Further, a security described in this publication may not be eligible for solicitation in the states in which the client resides. Organizations mentioned in this publication are not affiliates or associated with U.S. Bancorp Investments in any way.

Asset allocation and diversification does not ensure a profit or protect against a loss.

U.S. Bank, U.S. Bancorp Investments, and their representatives do not provide tax or legal advice. Each individual’s tax and financial situation is unique. You should consult your tax or legal advisor for advice and information concerning your particular situation.

Insurance guarantees are backed by the claims-paying ability of the issuing insurance company.

**For U.S. Bank:** U.S. Bank is not responsible for and does not guarantee the products, services, or performance of U.S. Bancorp Investments.

Credit products are offered by U.S. Bank National Association and subject to normal credit approval.

Deposit products are offered by U.S. Bank National Association. Member FDIC.

**For U.S. Bancorp Investments, Inc.:** Investment products and services are available through U.S. Bancorp Investments, Inc., member FINRA and SIPC, an investment adviser and a brokerage subsidiary of U.S. Bancorp and affiliate of U.S. Bank.

Insurance products including annuities are available through U.S. Bancorp Insurance Services, LLC, and U.S. Bancorp Investments, Inc.; in Montana, U.S. Bancorp Insurance Services of Montana, Inc.; and in Wyoming, U.S. Bancorp Insurance & Investments, Inc. All are licensed insurance agencies and subsidiaries of U.S. Bancorp and affiliates of U.S. Bank. Policies are underwritten by unaffiliated insurance companies and may not be available in all states. CA Insurance License #0E24641.

RealSteps>Retirement® is a registered trademark of U.S. Bancorp.