

Farm Succession: Tax Liquidity and Equality

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Common Concerns of Farming Clients

- How can I transfer my farming assets to my children?
- What happens if some of my children aren't involved in farming operations?
- When should I start planning for this transition?
- How can I minimize my tax burden?
- How will I fund my retirement?
- How can I protect the continuity of the farm?
- How can I protect the continuity of my family?

Estate Equalization

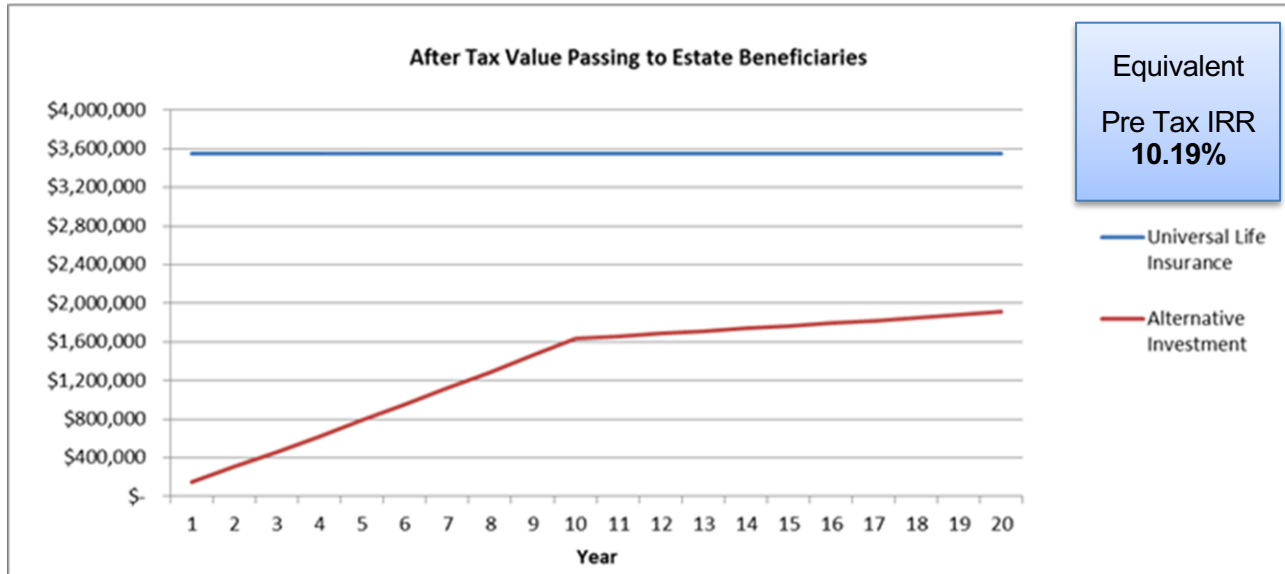
A portion of, or the full Farm Operation is passed to one party, while an insurance policy is designated for the other party(ies) to help equalize the estate.



Insurance Policy

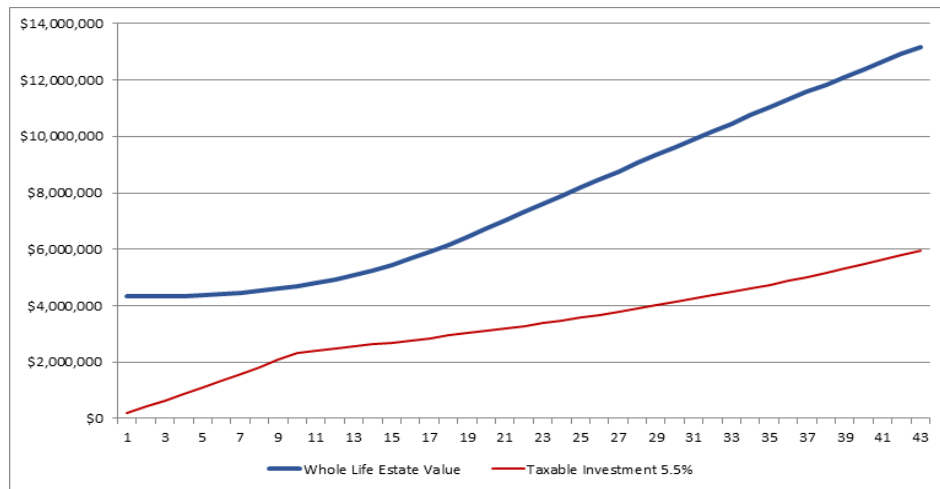
Tax Minimization

- 70 year old female and 73 year old male (rated)
- \$150K deposits for 10 years
- \$3,544,778 tax-free benefit to estate, whenever last death occurs **guaranteed**



How to supplement Retirement Income

\$200,000 in annual premiums paid for 10 years vs. \$200,000/year invested in a non-registered fixed income security paying 5.5%.



Year	Cash Value
10	\$1,779,292
20	\$3,037,929
30	\$5,341,195

Benefits of Permanent Insurance:

- Provides immediate liquidity to the estate
- Enhances retirement income on a tax-sheltered basis
- Provides beneficial tax attributes (tax-sheltered asset growth, tax-free disposition)
- Creates opportunity for pension-like income

Tax Rules for Farms

Farms are treated differently under the Income Tax Act

A farm may be
sold to a third party
for fair market value **OR**

*Tax would be payable
on the gain*

A farm may be
**transferred
to a 'related party'**
on a rollover basis

*Tax may be
deferred*

Implications of Planning on Farm Operations

Sell to Children	Intergenerational Rollover
<ul style="list-style-type: none">✓ Children put “skin in the game”✓ Provides liquidity event for parents✓ Enables parents to claim LCGE (if qualified)✓ Increased cost base for children	<ul style="list-style-type: none">✓ More affordable for children✓ No tax triggered for parents or children
<p style="text-align: center;">Happy Medium Sell a portion, roll a portion</p>	

Unanimous Shareholders' Agreement (USA)

When a business is owned by more than one person, a USA sets out the rights and obligations of the owners

How business will operate

- Management and decision making
- Financing
- Dispute resolution
- Share transfer

Common share transfer provisions

- ✓ Restriction on transfer
- ✓ Shotgun clause
- ✓ Right of first refusal
- ✓ Buy sell events
 - Death, disability, retirement, insolvency, divorce
- ✓ Insurance to fund buy-sell event

Estate Planning Considerations for Farmers

Keep your
estate plan
(and
documents)
current

Consider how
to pass
farming
property to
children

Ensure
fairness for
non-farming
children
(life insurance)

A Path Forward

To Consider

- Who will take over operations?
- Who will make ownership decisions?
- How much should children “pay”?
- Should children have part or full ownership?
- How will non-farming children be equalized?
- Is your retirement plan in order?



To Do

- Assemble a team of advisors
- Determine who will be involved in ownership and operations going forward
- Ensure your tax, estate and retirement plans are in order
- Create a contingency plan in case of owner/manager incapacity
- Execute a shareholders' agreement (if applicable)

Diversification



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