

Florida Agricultural Financial Management Conference

Tax and Succession Planning for Agricultural Businesses

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Basic Life Cycle of a Business

Start-up

Expansion/Growth

Financial Stability

Transition of Management, Control and Ownership

Continuation under new ownership vs. sale

What is “Succession Planning”?

Planning for the transition

Management

Control

Ownership

Why is Succession Planning Important?

70% of U.S. farm land will be transferred in the next 20 years

>1/3 of family businesses survive to the 2nd generation

>1/2 of those survive to the 3rd generation

80% of ag owners plan

>20% lacked confidence

Transition of Management, Ownership & Control

Minimizing taxes

Preserving ownership and control

Maintaining financial security

Structuring management

Transition of Management, Ownership & Control

Treating family equitably

Managing conflicts

Maintaining flexibility

Goals of Restructuring

Framework for all future planning

Establish management, ownership and control

Mechanism to transfer growth

Isolate operational liabilities

Protect business operations

Equitable not equal



Managing family conflicts



Transition of Control



The Governing Agreement



Overview of Income Tax Rules

Income tax rate - 39.6%

Capital gains rate - 20%

Net investment tax - 3.8%

State income tax

Overview of Transfer Tax Rules

\$5,430,000

40% tax rate

Lifetime transfers

- Gift splitting

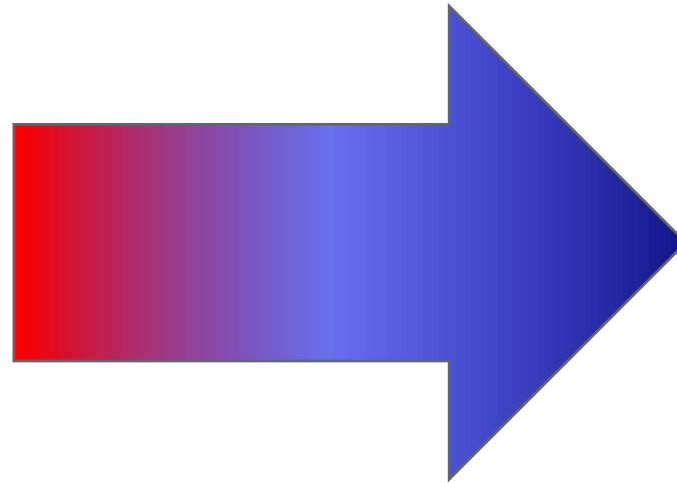
- Annual exclusion gifts

Transfers upon death

- Deceased spouse's unused estate tax exemption

Estate Planning Evolution

Transfer taxes
Family management
Direct ownership
Concentrated business



Income taxes
Professional management
Dynastic ownership
Diversified business
Creditor protection
Fiduciary litigation



B & B Company, LLC

	Basis	FMV
Dead Grove Parcel	\$50,000	\$5,000,000
Ranch Parcel	\$4,000,000	\$5,000,000



	Buddy	Brenda	Total
B&B Company, LLC	\$5 million	\$5 million	\$10 million
Other Assets	\$1 million	\$1 million	\$2 million
			\$12 million

Old Estate Planning Analysis

Credit Shelter Trust

Marital Shelter Trust

Discounts

Death of Buddy

2009

Death of Brenda

\$4,250,000

Gross Estate

\$5,000,000

(\$ 750,000)

Marital Deduction

(\$ 0)

\$1,455,800

Tentative Estate Tax

\$2,130,800

(\$1,455,800)

Estate Tax Credit

(\$1,455,800)

\$ 0

Tax Due

\$ 675,000

Post-Mortem

Buddy's Assets	\$3,500,000	\$5,250,000
Brenda's Assets	<u>4,325,000</u>	<u>6,075,000</u>
Total Assets	\$7,825,000	\$11,325,000
Tax Rate	5.625%	

Sale of Dead Grove Parcel

	B & B Company, LLC	Buddy's Credit Trust	Brenda
Sales Price	\$5,000,000	\$2,500,000	\$2,500,000
Basis	<u>50,000</u>	<u>1,044,200</u>	<u>25,000</u>
Capital Gain	4,950,000	1,455,800	2,475,000
Tax	\$742,500	\$218,370	\$371,250
			\$589,620

New Estate Planning Analysis

Credit Shelter Trust

Marital Shelter Trust

Discounts

Income Tax

Capital Gains Tax

Net Investment Tax

Death of Buddy

2015 with Discount

Death of Brenda

\$4,250,000

Total Estate

\$4,250,000

(\$ 0)

Marital Deduction

(\$ 0)

\$ 0

Tentative Estate Tax

\$ 0

(\$ 0)

Estate Tax Credit

(\$ 0)

\$ 0

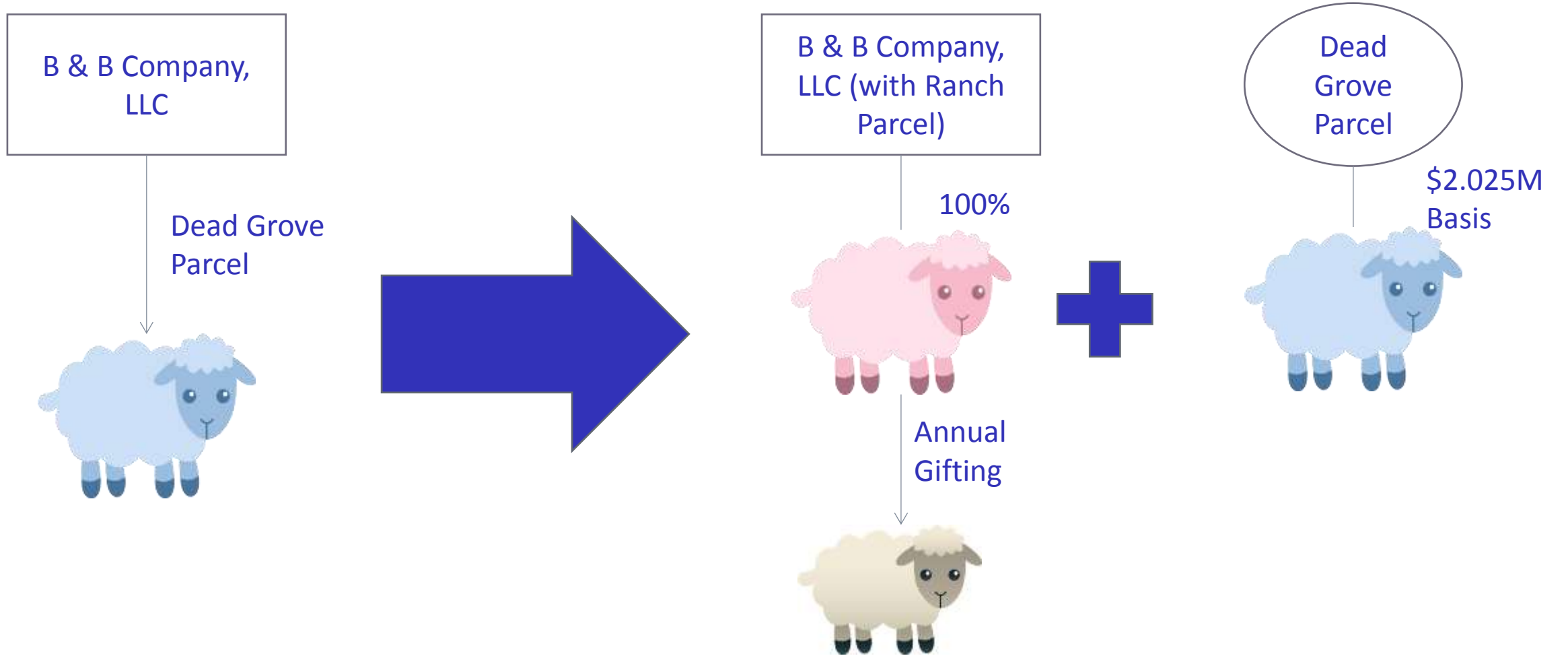
Total Tax Due

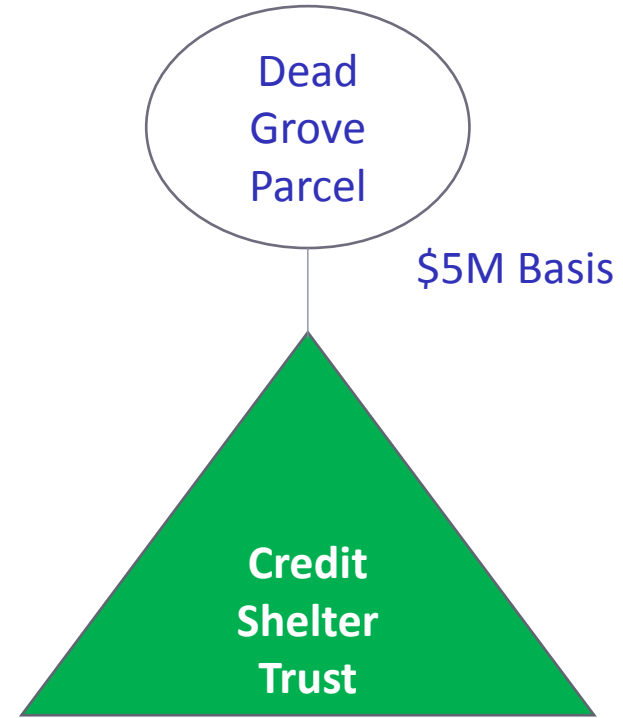
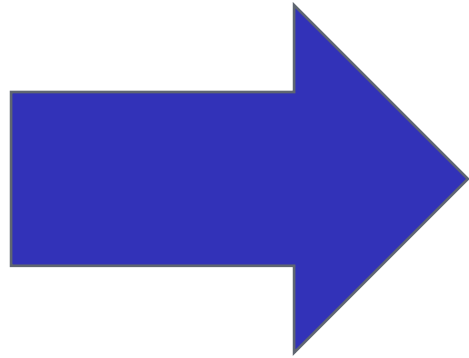
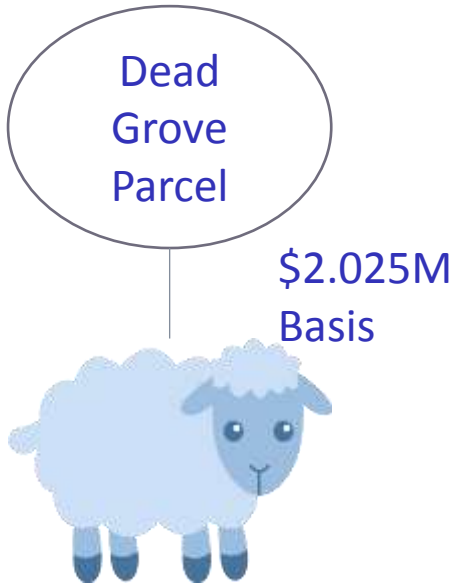
\$ 0



Basis Planning







The New Reality
Obtaining a Higher Basis

Planning for Death becomes more about
Basis and **Income Tax** Planning

All To QTIP

2015
H dies

\$5 Million

Marital Trust

In 2025 (W dies)

\$8,000,000

Full step-up in basis at
W's death

\$0 Income Tax

2025
W dies

\$ 8,000,000	Estate
<u>8,000,000</u>	Marital Trust
\$16,000,000	Gross Estate
< 5,430,000 >	DSUE
< <u>6,620,000</u> >	Exemption
\$ 3,950,000	Taxable Estate
1,580,000	Estate Tax

Total Tax = \$1,580,000

A/B Trust Plan

2015

H dies

\$5 Million

Credit Shelter Trust

In 2025 (W dies)

FMV \$8,000,000
Basis < \$5,000,000 >
\$3,000,000

Income Tax = \$714,000 + \$380,000
(Assumes 23.8% Rate)

2025

W dies

\$ 8,000,000 Estate
< 430,000 > DSUE
< \$ 6,620,000 > Exemption
950,000 Taxable Estate
\$ 380,000 Estate Tax

Total Tax = \$1,094,000

Planning Options

Set formula split between Credit Amount and Marital Amount

All to spouse

All to Marital Trust (QTIP)

Planning Options

Power by Disinterested Trustee

Sale of loss assets

Conservation Easements: A Planning Opportunity

Income Tax Consequences: Sales of Easements

Threat of condemnation?



Estate Tax Planning Opportunities



Why is Succession Planning Important?

- Minimize Taxes
- Creditor/Divorce Protection
- Business Continuity
- Preserve Value
- Avoid & Resolve Family Conflicts
- Define Management

With proper planning, your business can be one of the few that survive to future generations

GET STARTED NOW!

Questions?

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