



Be well-advised.

Tax-Efficient Farm Retirement Strategies



*Maximize your
family's wealth*

GENERATIONS

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Tax-Efficient Farm Retirement Strategies

Wayne and Joanne have a grain and cattle farm and are thinking of retiring within the next five years. Their eldest son Jim is the only one of their three children who wants to continue farming. Five years ago, they transferred some land and equipment to Jim to help get him started.

On retirement, they would like to transfer the rest of their land to Jim, but sell their equipment, grain and cattle to fund their retirement. Wayne and Joanne are concerned that the transfer and sale may generate regular farm income and taxes, which is what happened to friends in a similar situation who retired without proper planning.

Our Solution

Wayne and Joanne obtain professional advice that includes a detailed analysis of their situation since the tax rules regarding the transfer or sale of farm and farm assets are very complex. Although farmers may qualify for the tax-deferred “rollover” of farm property to a child and the \$750,000 lifetime capital gains exemption (CGE), these tax-efficient farm strategies do not automatically apply. Our detailed analysis reveals that certain parcels of Wayne and Joanne’s land would qualify for the rollover to Jim. Those parcels of land that would not qualify for the rollover – because they are not considered to have been used “principally in the business of farming” – will still qualify for the CGE, based on Wayne and Joanne’s specific situation.

Using a combination of the CGE and the rollover rules, Wayne and Joanne can pass their land to Jim tax-free. Also, this strategy gives Jim a higher cost base for the land, minimizing his future taxes if he sells or transfers the land.

In addition, we determined that it would be beneficial to structure Wayne and Joanne’s business as a family farm partnership – so that it will be eligible to be rolled into a corporation, which is a multi-year process. By selling the equipment, grain and cattle from the corporation, they will significantly reduce their tax bill.

Employing tax-efficient farm retirement strategies, through our specialized advice, Wayne and Joanne will pay substantially less tax and enjoy a much more comfortable retirement.

If you want to know more about tax-efficient farm retirement strategies, contact your Assante advisor today or visit www.assante.com to locate an advisor near you.

What is the capital gains exemption (CGE)?

- A lifetime exemption that allows you to realize up to \$750,000 in capital gains tax-free on the sale or transfer of qualified farm assets.
- The CGE may apply to land, eligible capital property (such as production quota), an interest in a family farm partnership, or shares of a family farm corporation. Depreciable property (such as farm equipment), and inventory (such as grain or cattle) do not qualify.

What are the farm “rollover” rules?

- A set of tax rules that allow farmers to avoid tax on the sale or transfer of qualified farm assets to certain family members.
- “Rollovers” may apply to land, depreciable property (such as equipment), eligible capital property (such as production quota), an interest in a family farm partnership, or shares of a family farm corporation. Inventory (such as grain or cattle) does not qualify.

Who should consider using the CGE and “rollover” rules?

- Farmers who plan to retire, sell or transfer the farm and/or farm assets within the next five years.
- Those who want to sell or transfer the farm or farm assets during their lifetime or through their estate, either within their family or to an outside party.

Farmers should not assume they will automatically benefit from the CGE and farm rollover rules. Certain complex factual tests must be met in order for these rules to apply. Careful attention must be paid to details such as the method and timing.

Period of ownership, who owns and who uses the asset, the nature of the asset, and the farm ownership structure all need to be considered.