

Succession Planning

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“The single most important part of a succession plan is having one, and the most important step is getting started.”

– The Legacy Project

What is Succession Planning ?

- *Succession planning* is the process of setting up a smooth transition of **property and its management** between a landowner and the future owners of their property.

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- *Succession planning* is the process of setting up a smooth transition of property and its management between a landowner and the future owners of their property.
 - Transparent
 - Fair vs. equitable

Fair vs. Equitable

John & Mary Farms



Fair vs. Equitable



Fair vs. Equitable

- **John Jr:** involved with the farm, helps with mgmt., interested in carrying on farm legacy
- **Kathy:** also involved with the farm, provides 4-H activities and other outreach, farm legacy important
- **Roy:** uninterested in farm, hits the road with a touring rock band
- **Jake:** moves out and becomes a college professor in another state



Fair vs. Equitable

Question: What might be considered a **fair** way for John and Mary to transition the farm to the children?



- **A-** All kids get the same share and control of farm estate.
- **B-** John Jr. and Kathy get greater share and control of farm estate than Roy and Jake.

Fair vs. Equitable



- **Equitable:** All kids get the same share and control of farm estate.
 - Consequence – Roy and Jake likely to sell their share, creating problems for John Jr and Kathy, farm may not survive changes
- **Fair:** John Jr. and Kathy get greater share and control of farm estate while Roy and Jake acquire other heirlooms and value.
 - Consequence - Roy and Jake may squawk but farm more likely to continue to be managed and passed on to next generation

What is Succession Planning ?

- *Succession planning* is the process of setting up a smooth transition between a landowner and the future owners of their property.
 - Transparent
 - Fair vs. equitable
 - Formal
 - Thorough – reasonably answers all the who, what, where, when, how questions related to the ownership and management of the land for future generations

Question:

- Succession planning is the same thing as estate planning.

A- True

B- False

Same as Estate Planning?

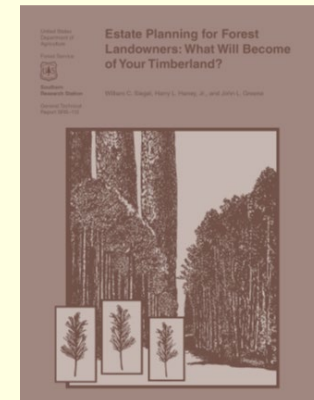
- Succession Planning is preparing your family and property for a change in ownership and leadership.

Same as Estate Planning?

- Succession planning is preparing your property and your family for a change in ownership and leadership.
- **Estate planning** is the process of understanding and using the set of legal tools that are available to make sure your Succession Plan happens the way you want it to happen.

- Wills
- Trusts
- Business structures

- Seigel, Haney, and Greene book
<https://www.timbertax.org/publications/fs/EstatePlanningforForestLandowners/>



Why not just focus on Estate Planning?

- Talking about the tools before you have the plan is like packing your bags before you decide what kind of trip you want to take. Many families make this mistake and have spent large sums on elaborate estate planning documents without having ever stepped back and asked what they wanted to accomplish in the first place.

-Clint Bentz

5 Things that Can Happen to a Property

1. **Sell all or part to someone else**
2. **Sell or donate portion of land use rights (e.g. through conservation easement) to agency, organization, charity**
3. **Break it up and divide among children**
4. **Give intact to one child**
5. **Give undivided interests in the property to children**

There are benefits and risks to each of these actions which need to be thought through carefully to prevent unintended consequences.

Foresters: Wait a minute!

Is this really our business??

- No...

Is this really our business??

- No...

- but Yes....

- Consider this reality: millions of acres of family-owned lands in the United States will change hands within the next decade
- Many of these transfers will happen with virtually **no planning**.

Question:

- Nationwide, the US Forest Service projects that how many acres will pass out of forest use over the next 50 years?
 - A-** 725,000 acres
 - B-** 1.7 million acres
 - C-** 12.5 million acres
 - D-** 23.2 million acres

This is all of our business

- The USDA Forest Service projects that, nationwide, about **23.2 million acres** of forestland will pass out of forest use over the next 50 years. Most of these acres will be privately owned, nonindustrial forest lands converted to residential subdivision.



It is appropriate for a trusted land management professional to:

- **Ask some very simple, nonintrusive, but important questions**
- **Share some information and resources**
- **Suggest that the next generation get involved, if applicable / appropriate**

Information and Resources

■ Ties to the Land: Your Family Forest Heritage

- a resource for families facing the challenge of passing their properties and land-based businesses from one generation to the next. ***Ties to the Land*** will help guide family landowners through ownership transition.

<http://tiestotheLand.org/>

■ Extension Resources:

- Ownership Succession: Plan Now for the Future of Your Land

<http://edis.ifas.ufl.edu/fr274>

- Estate Planning: <http://www.timbertax.org/>

- Workshops



UF IFAS Extension

FOR 212

Ownership Succession: Plan Now for the Future of Your Land¹

Chris Demery²

Consider this reality: millions of acres of family-owned lands in the United States will change hands within the next decade, and many of these transfers will happen with virtually no planning. Although many landowners wish to pass their forestland on to family members, few have taken the necessary steps to make that happen. The USDA Forest Service projects that, nationwide, about 23.2 million acres of forestland will pass out of forest use over the next 50 years. Most of these acres will be privately owned, nonindustrial forest lands converted to residential subdivisions.

member's values are understood and the transfer of the property to the next owner(s) is fair.

Succession planning is the process of setting up a smooth transition between you and the future owners of your property. While estate planning is an important part of the process of passing the land on to the next owner, estate planning alone will not ensure that the property will be owned and managed in the future as you intend. When land is passed to children intact and with their vision about how it is to be managed and why, the land is much more likely to be kept intact and managed as a legacy to the parents. This can establish a pattern for future generations.

Disclaimer: The material in this publication is intended for general education. Individuals, businesses, and government entities that have legal or tax-related questions should consult their legal counsel or other specialists and references for assistance.

8 Steps to Succession Planning

Step 1: Discuss your vision and goals for the land with your spouse and write them down. What is your vision? What do you want for your lands future? Is it simply an investment asset that you know will be sold at some point? Or do you intend it to be owned and managed by your heirs and their heirs for future generations to come? Which heirs, if any, do you think are interested in carrying on the land management? Do you simply want the land to be

What can I do to plan for my land's future?

Lack of communication coupled with differences among family members in values, goals and management skills can lead to unintended results for a family and their property. Difficulties, communication and planning is essential and must involve the entire family in order to ensure that each

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³ To learn more about the importance of planning for the future of your land, visit the website <http://www.timbertax.org/>. For more information on the importance of planning for the future of your land, visit the website <http://www.timbertax.org/>. For more information on the importance of planning for the future of your land, visit the website <http://www.timbertax.org/>.

⁴ U.S. Department of Agriculture, U.S. Forest Service, University of Florida, IFAS, Florida A & M University Cooperative Extension Program, and Florida County Commissioners Cooperating with U.S. Forest Service, Florida A & M University.

8 Steps to Succession Planning

- **Step 1: Discuss your vision and goals for the land with your spouse and write them down.**
 - Do you have a future vision or goals for the land?
 - Is it simply an investment asset that you know will be sold at some point or do you intend it to be owned and managed by your heirs and their heirs for future generations to come?
 - Which heirs, if any, do you think are interested in carrying on the land management?



Heirloom Scale



8 Steps to Succession Planning

- **Step 2: Hold a family meeting to discuss your vision and goals for the property with the family, and get their feedback.**
 - Share your vision and goals for the property and then determine your family's interests – use the heirloom scale.
 - This is one of the more challenging steps:
 - Involves family members' emotions and their relationships with each other and with the land.
 - Thinking about and discussing the future is likely to evoke strong emotions associated with aging, death, sibling relations, parent-child relations, personal visions, etc.
 - Might be best to involve / hire a facilitator

8 Steps to Succession Planning

- **Step 3: Create a formal family business structure to own the land.**
 - This structure defines how business is conducted, who is involved in management and decisions, how you are taxed, and how much liability you (and partners) bear.
 - Will ownership stay in the blood line or will spouses also share in ownership?
 - The best structure will depend on how large and complicated the business is.
 - Sole Proprietorship
 - General Partnership
 - **Family Limited Partnership**
 - **Limited Liability Company**
 - S Corporation
 - C Corporation

8 Steps to Succession Planning

■ **Step 4: Choose and train a successor.**

- The successor(s) will manage the family business, so it is essential that he/she/they have, or gain, the acceptance of the rest of the family.
 - If possible, choose someone who has a deep interest in the continued management of the property, even if their vision differs somewhat from your own.
- Use consistent patterns for decision making, and train the successor(s) to do the same. The longer you can do this, the more ready and able the successor(s) will be to carry on this important role.

8 Steps to Succession Planning

- **Step 5: Hold regular family meetings to discuss concerns and the business.**
 - Develop a meeting agenda and circulate it before the meeting to invite input and to make sure everyone is engaged.
 - Avoid or disclose conflicts of interest and explain how decisions will be made on each agenda item.
 - Teach the family about the business structure, to work out how decisions will be made, and to present updates on any progress in the management of the property.
 - Also use this as an opportunity to continue sharing your vision for the land.

8 Steps to Succession Planning

- **Step 6: Discuss and write down important decisions.**
 - For what goals and objectives will the property be managed?
 - Who will be responsible for regular management and how much oversight will that person have from the rest of the family?
 - At what age does the next generation qualify for ownership?
 - Under what conditions will the property or assets be sold?
 - Will you allow the property to be mortgaged?

8 Steps to Succession Planning

■ **Step 7: Set employment policies before hiring family members.**

If you plan to hire family members to do work on the property, follow the employment laws for your state and make these decisions before any work begins:

- How will payment or salaries be determined and how will they be paid?
- What are the duties and expectations - your own and your employees'?
- Who is eligible for work and what are the qualifications? Is there any special training or education needed for the job?

8 Steps to Succession Planning

- **Step 8: Create non-financial reasons for keeping the property.**
 - Have fun! Encourage the kids and grandkids to visit the property and provide opportunities for everyone to be involved in enjoying and managing the property.
 - Set up a camping area, hiking or riding trails, interpretive trails, shooting range; create a pond or build a dock for one that's already there.
 - Host a tour of the property for a group or organization such as Tree Farm, Forest Stewardship, Scouts, 4-H, Future Farmers, Audubon, Native Plant Society, church, or other group. Seeing the property through someone else's eyes can be very encouraging and motivating.

Invite the Next Generation

- If you are hosting an educational event for landowners, encourage them to bring the kids (if appropriate)
 - Older kids if technical
 - Younger kids will enjoy outdoor excursions like farm tours



