

A note from Mom | “Inheritance is a gift, not a right”



By Mike Downey, Certified Farm Succession Consultant

I was recently handed a note written by Mom she wishes to have her children read one day.

She opened her letter with these three statements:

1. Inheritance is a gift, not a right
2. It is our wish to treat all of our children fairly, but not necessarily equally
3. We would rather give our assets away to charity than see

our family argue over our estate distribution

These three statements left such an impression on me that it wasn't really necessary for me to read her letter any further. If reading this left an impression on me as a non-family member, I can't imagine the impression it will leave on their children one day. Most estate distribution documents are generated by computer software that may very well look similar to your neighbor's. In this case, I believe Mom and Dad's hope by putting this in their own handwriting is their children will understand and respect their wishes much more.

INHERITANCE IS A GIFT, NOT A RIGHT

Often times a family meeting is part of our five step process of updating or creating an estate and farm transition plan. Most families have two options:

1. Tell the family what you have decided for your estate plan
2. Ask your family for their input, then decide

Sometimes the second option leads to next generation expressing what they believe to be fair or what they may be entitled to, but certainly a method to fish out your kids' viewpoints. Mom and Dad worked hard many years to build their farm assets and although they wanted to treat their kids fairly, they also realized they weren't necessarily entitled to any of it either.

Their family's farmland existed because of their parents hard work and perseverance through some tough times. In fact, in Dad's own words, *"we are land rich, but dirt poor."*

FAIR VERSUS EQUAL

Their farm continuation plan included the operating assets of the farm machinery, livestock, and building sites going to their son and grandson to continue the operating side of the farm business. The 500 acres of land will be held together with a

Limited Liability Company (LLC) to provide an ownership structure for all of their children to own the family farm together. Their children will not be inheriting parcels outright which they could in turn rent to their sibling or sell in the open market. Rather, Mom and Dad wanted to ensure their land mass stayed together as they realize the acres it takes now to have a viable farm operation will be much more in the future.

To be fair, Mom and Dad didn't want to "rule" from the grave, nor force future generations into ownership of the family farm if they didn't want it. So, they included buy-sell provisions in the LLC for how the purchase price would be established if future owners needed or wanted to sell their ownership of the LLC. It also included lease provisions utilizing a flexible cash rent lease structure for their son and grandson. This was Mom and Dad's idea for allowing the farming heirs in the family to control the day to day decisions for the operating side of the family business (grain, machinery, livestock), but also a mechanism to allow their non-farming children to participate in any future success and profitability of the farm business via potential "bonus" rent payments. If the farm has a profitable year, it will share 30% of those profits with the entire family. Future generations could also change or amend these rules if they reach a certain majority vote, so Mom and Dad wouldn't be "ruling" from the grave.

Secretly, I believe Mom & Dad's hope is their family will rally around this land owning entity and the fact that's it's a Heritage farm (150 years) and legacy asset. The family could leverage the purchasing power of keeping 500 acres of land together to buy more land versus each of their 5 kids inheriting 100 acres each. The LLC purchasing more land will not only benefit the entire family as landowners, but also future farmers in the family who will be operating the land and will need more acres to farm in the future.

WE WOULD RATHER GIFT OUR ASSETS AWAY THAN SEE FAMILY ARGUMENTS

If there is one thing Mom and Dad may consider changing is to be more proactive and communicate their wishes now. It's interesting that none of us intend to raise children for them to fight or argue as adults. Unfortunately, this is what often happens to families after a distribution of Mom and Dad's estate. Please consider communicating your plan now versus deferring the conversation through your estate documents. At the very least, consider a hand-written note!

WHAT IS THE STORY YOU WANT YOUR FAMILY TO RALLY AROUND?

The age of the landowner is the oldest ever in history. As we see more and more land transition in the next 10 to 15 years we encourage you to consider a simple hand written note or communicate your goals and objectives now. Otherwise, your family's history could be lost in translation for generations to come.

For those that haven't even started an estate or succession plan warrants an entirely different conversation. Perhaps a topic for our next blog post about the general deferral mentality many of us possess. Please consider starting now!

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