ROTH HRYWKIW FIDEK LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

What are the most significant planning problems to be considered?

Estate planning is not a one-time event. It is a lifelong process that requires buy-in from the entire family to ensure it is effective, can be implemented and ultimately benefits all members.

Having the plan written down is important as it helps reduce potential misunderstandings.

Care should be given to the parent's needs to ensure they are provided for after retirement. This involves an analysis of the farm, its current assets & debt, and its ability to produce after the operation is transferred to the child(ren).

Is the allocation of assets to farming and non-farming children inherently unfair?

Transferring assets to children, whether at time of death or while the parents are living, can lead to fairness concerns. The transfer of farm assets worth $2 million to one child and $2 million in cash to another child results in two very different outcomes.

The farming child will have to continue to work the farm and manage the ongoing risk associated with the operation to see a return on their inheritance. Additionally, the farm assets are likely not liquid. The non-farming child however can use or invest the $2 million in cash however he/she decides as cash is highly liquid.

The farming child may have contributed a significate amount of time into the farm operation, and this may need to be considered in the split of the parents' assets as well.

Can life insurance help equalize the inheritance?

Implementing a life insurance policy into the estate plan can be an effective way to equalize the estate and provide for liquidity upon the passing of the parents. This type of planning needs to be considered early on as premiums on term policies escalate quickly and depending on the circumstance, insurance might not be an economical option once the parents turn 65.

If life insurance isn't an option, can I transfer farmland to a non-farming child?

Transferring land to the non-farming child can be an option to consider if liquidity is an issue. This allows the land to stay in the family. Certain safeguards like a mortgage in favour of the non-farming child and/or purchase rights to the farming children could be implemented to protect all children.

Mechanisms could be put in place to require the non-farming child to rent the land back to his/her siblings for a set period. At the conclusion of this defined rental period, the farming child would have the right to purchase the land at fair market value.

Conclusion

Farm family estate planning only works if the plan is discussed among all family members, addresses all concerns presented and is flexible so changes can be made if required.

No two farm families are identical. The same applies to estate planning options. Planning in advance will help your family avoid surprises, preserve family wealth and most importantly, protect family dynamics.

Written by: Jared Pilon CPA, CGA, TEP