I've Inherited a Farm, Now What?

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Just a primer – things to think about  
Outline for today…..

• What have you inherited?  
• What is your situation?  
• What are you going to do with it?

• Consult your lawyer!! (this presentation is not a substitute for good legal advice)

Credit to Iowa State University, Ag Decision Maker, May, 2013, article by Mike Duffy
What have I inherited?

- Exactly what do I have?
- Current Economic situation?
- What is my situation?

What do I have?

- Pasture vs. non-irrigated farm vs. irrigated farm
  - Or all three?
- **Location, Location, Location!!**
- Who else is involved? (other brothers/sisters)
  - Check the title or the will – may need to ask lawyer to help
  - Who is in charge? Yourself, shared decision making, someone else

What do I have – cont.

- What is it worth?
  - Seriously consider getting a full appraisal (be willing to pay!)
  - Understand that financial institutions will value differently
  - Very important step!
Location, Location, Location

Usually the land that is top dollar – subject to all the coffee shop talk – is land that has very good production, good location, and has two or more deep pocketed neighbors interested in the purchasing.

Current Economic Situation

Do you sell the land?

• Farmland is currently valued at an all time high
  – High even if you consider inflation
    • Land values have more than doubled in the past 6-7 years
  – Recent reports indicate that farmland values have stabilized over the past 6-12 months
    • Outstanding ground still very strong market
    • Average and good ground – starting to soften
  – Values at peak, decline, continue to rise – who knows?

Correlation of USDA Land Value and Corn Price – 0.8834
Consider Economics - continued
• Selling may be very lucrative – if you care to do that
  – Hard for some – to sell the “home place”
  – Place that has been with the family for over 100 years
  – etc……
• If wanting to sell
  – Determine what your basis is (first)
  • This will help you determine your capital gains tax due if you
    sell
  • Selling to the cousin or neighbor – don’t need top
dollar – but need to be fair

Options for keeping
• Estimate what the potential income might be
• Either from farming it yourself
  • Does it fit the current operation?
• Having it custom farmed
  • Some are having it custom farmed for a % of the
    production – to motivate farmer to produce
• From rental
  • Crop share rent
  • Cash rent
  • Flexible cash rent

Professional Farm Manager
• Consider use if Custom Farming or Renting
• Take care of managing the asset – especially valuable
  for absentee owners
• Charge between 6-12% of the rental rate as their fee for
  management (less on straight cash rent, more on crop
  share rent agreements or custom farming)
  – Depends on what you are asking them to do
• In some cases, the service is very worthwhile
Options for keeping - continued

• A bit more about renting
  – Custom Farming – any questions?
  – Crop Share – (if you don’t mind the marketing part)
    • Still a very fair way to rent – for both landowner and tenant
    • Some landlords are taking a smaller percent and paying no input expenses
  Questions?

Options for keeping - continued

• More about renting
  – Cash leases – two types – straight cash leases and flexible cash leases
    • Straight lease means that you get paid XX dollars per acre for the lease per year
    • Flexible lease means you that the actual lease is flexed by some variable – usually price and/or yield
      – Consider putting lower and upper limits on the ‘flex’
  Questions?

Farming Heir – and the lease

• Is that on-farm sib being treated fairly?
  – Have they been fairly treated for the sweat equity that they have contributed
  – Honest evaluation of this is key
    • Avoid feelings of entitlement
    • Avoid mistrust
More on the Situation.....

Fair is not always equal

• Our older generation thinks that fair means equal
  – Not necessarily true
  – Appropriate for on-farm heir to receive
    compensation for sweat equity — (building maintenance,
    non-crop weed control, volunteer tree control, fence maintenance, terrrace
    maintenance, rock on driveway, etc.)
  • Thus the need to be fair
  • Also means that you may not divide asset equally

Communications - Important

• Most peoples’ goal is to hold the family together(?)
  – Don’t make that assumption – get that commitment
• Best way is to be open and clear with communications
• Be sure to include spouses and adult
  children/grand children — especially their spouses
• Put all options on the table
• Listen!!

Generational Values

Understanding generations
What are each generation’s defining characteristics?

Based on experiences during their formative years.
Communications, Generations, and relations

• The living generations:
  – Matures: born 1910-1945
  – Baby boomers: born 1946-1964
  – Generation X: born 1965-1979
  – Generation Z: born 2001-???
    • Not including in today's discussion
    • Formative years just going to start

Get and use help when needed

• Rural response Hotline – for transition/transfer questions-1-800-464-0258
  – Make appointment for local clinic (Norfolk)
• Your local attorney
  – Be sure they know ag land law
• Avoid going to court if you can
  – Expensive
  – Divisive

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Other questions?

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