

# Iowa Farm Transition Case Studies

## Loomis Family Farm Transition *Ed and Joanne Loomis* *James and Denise Loomis*

### Background

Edward and Joanne Loomis began farming in eastern Iowa, in 1962, renting 160 acres from Ed's father. In 1964, they rented an additional 160 acres on a crop share lease, which included a house. The family income was supplemented by Joanne's earnings as a nurse and Ed's Iowa National Guard earnings. In 1976, they moved to the current farmstead. Ed farrowed and finished swine and expanded the crop base to 1,060 acres of corn and soybeans, of which they owned 260 acres. As their daughter, Susan, and two sons, James and Larry, reached adulthood, they went to college. Ed and Joanne felt the need to prioritize their goals for the farm and their future. Most important, they wanted the farm to stay in the family. A secondary goal was to help their grandchildren attend college.

### Transitioning to the Next Generation

Ed and Joanne's son, James, graduated from Iowa State University in 1990 with a degree in agricultural business, and initially worked for a commodity organization. However, he had a desire to farm for a living and in 1992, was able to rent 345 acres from his grandfather. Ed had been renting this land and turned over the lease to James.

Ed had a full-time employee during the 1980s, but when James came home to farm, the employee left for other opportunities, allowing James to step in and take over additional responsibilities in his parent's operation.

When Ed sold his sows and left the swine business, James purchased part of Ed's breeding stock and began his own farrow-to-finish enterprise, initially using his parents' facilities.

### Keys to Success

- Excellent farm production and financial records; regular farm business analysis
- Crop and livestock enterprises during start up and growth phases for both generations
- Off-farm income for both generations
- Crop share leases with family members and non-family landowners
- Willingness to live frugally
- Open, regular communication among parents and both farming and non-farming children
- Willingness for older generation to allow younger generation to manage on their own
- Planned, gradual transfer of machinery before older generation's full retirement

The two farming operations had always been operated as separate businesses and although machinery and labor had been shared and much of the crop work had been done jointly, the farms were organized as sole proprietorships. Later, when the farms needed a shared employee, James assumed responsibility for the employee's wages and insurance when he began acquiring machinery from Ed.

James's wife, Denise, while teaching in area school districts, has also been close to the farming operation.

### Land Base

The initial lease James had with his grandfather was on a crop share basis. Eventually, he was able to rent additional land and expand the crop base to approximately 900 acres. Near retirement, Ed and Joanne were renting approximately 800 acres in addition to the 260 acres they owned. They planned a phased retirement from farming. As scheduled, five years before their full retirement, they began transferring one-fifth of their leased land to James

each year. James now farms close to 2,000 acres. In his retirement, Ed continues to act in a managerial capacity for some of the farm owners, some of whom are family members, who rent to James under a crop share lease.

## Machinery Transition

Unique to their machinery ownership either Ed or James owned 100 percent of their respective machines, which then made up the shared equipment inventory for the two operations.

As major pieces of machinery needed to be replaced, Ed and Joanne transferred ownership of the old machines to James. The value of the old machinery was reimbursement for the value of the farm employee's labor (paid by James) spent on his parents' operation. When James traded the older machinery, he paid the cash difference needed for newer models. This way, James acquired ownership of a partial line of machinery over time, and Ed and Joanne were able to avoid the income tax liabilities that would have resulted from liquidating their machinery. For example, eight years into James's farming career, he owned the planter, 4-wheel drive tractor, front-wheel assist tractor, and a field cultivator while Ed owned the remaining machinery. Each was responsible for maintaining his particular machine and its depreciation schedule.

Eventually each generation owned a portion of the entire machinery line that was approximately equal to the proportion of the total land base they operated. Initially, this was about one-third owned by James and two-thirds owned by Ed, but by the time Ed began his phased retirement, the proportions were reversed. Consequently, no payments between parties were needed to adjust machinery ownership costs. When Ed retired, his combine and large tractor were appraised by a machinery dealer. Their value was discounted by the amount of income tax that would be due if they were sold outright to James. The combine was then gifted to James utilizing a lifetime gift exclusion, the value of which was reimbursed back to Ed and Joanne with a 10-year grain bin rental agreement. The tractor was gifted using the annual estate tax gift exclusion.

## Livestock

James continues to farrow and finish hogs independently and markets them through a local locker and directly to customers. In 2008, Ed and Joanne deeded five acres of their home farm to James and Denise so they could build a new hog finishing facility. The new building was financed through an Iowa Farm Finance Authority loan.

## Planning Process

Ed and Joanne planned to complete the transition of the farming operation to James by the time Ed turned 72. To accomplish that goal, they started the process of transferring their rented farms five years before that date. Ed and Joanne did a thorough review of their financial and legal documents and consolidated them into one notebook for easy reference. They attended several estate planning seminars and studied Neil Harl's book, "Farm Estate and Business Planning". Their other son and daughter have off-farm careers, so they were able to concentrate on transferring the operation solely to James and Denise. However, all the children were involved in the planning process. James was already fully established in farming by the time Ed and Joanne retired, so no further expansion, other than the addition of his parents leased land, was necessary. James and his family live rent-free on a farmstead located on a tract of land he will inherit upon the death of his parents. This allows them to make improvements without potential conflict with the other heirs during estate settlement. Ed and Joanne are now fully retired, although Ed still helps with field work when needed.

## Estate Plan

Joanne and Ed each have a revocable trust agreement through which the land will transfer to their children. James will inherit one-third of the land base consisting of two individual tracts each containing a farmstead and livestock facilities. The other two children will inherit the remaining two-thirds of the land base with each having an undivided one-half interest. Under conditions of the trust, James will have the right of first refusal to rent his siblings' land until he reaches the age of 65. The two non-farming children will also receive shares in Ed's stock portfolio, the value of which will partially offset the advantage James had with the machinery transfers. Ed and Joanne noted that, "Our philosophy in estate planning was that there should be an equitable, but not necessarily equal, transfer of our assets to our sons and daughter."

## Business Structures

- Ed and Joanne—Sole proprietorship
- James and Denise—Sole proprietorship

## Business and Estate Management Tools

- Transfer of old machinery at time of upgrade to younger generation as compensation for labor expense used on Ed's farm.
- Gifting of remaining owned machinery at full retirement
- Revocable trust for land transfer at death
  - ▶ One-third of owned land to be transferred to each child
  - ▶ Farming heir's land will include livestock facilities, farmsteads, and grain storage facilities
  - ▶ Right of first refusal for farming heir to rent land from siblings until age 65
- Investments outside the farm to be transferred to non-farming children—some at Ed's and some at Joanne's death—to help balance the inheritance.

## Lessons Learned

### Responses provided by Ed and Joanne.

#### 1. What worked well?

- Every landowner was willing to turn over previous leases to James so the land base of the operation was maintained. This was likely due, in part, to the continuous stewardship of the landlord/tenant relationships over the years. Joanne was instrumental in this effort, which was one of her key contributions to the management of the farm. Joanne was able to relate to two women landowners especially well with Christmas cards, dessert invitations at the home at the conclusion of farm visits, and keeping them abreast of family activities. This worked especially well with crop share leases. These leases keep the landowners intimately involved with their farm and with agriculture. As long as we did a good job of farming and sharing information, the leasing arrangements continued, automatically. Some of these relationships have been extended to the second generations on both sides of landowner/tenant structure.

- All of the children in the family were supportive of the transition process.
- From the beginning of James' farming career, each farming operation was managed and maintained as a separate business. This allowed James the opportunity to develop his own management style.

#### 2. What we could have done differently?

- More open communication with the spouses of our children.

#### 3. What would we advise others going through a similar process?

- Once the transition takes place, step back and let the next generation be in charge. Help when asked, whether it's loading hogs, caring for the grandchildren, or driving the combine.
- If the older generation doesn't transfer the 'thinking', they haven't completed the transition.
- If the goal of the family is to continue the legacy for generations, sacrifices by both parties within the transition are needed.

## Discussion Questions

1. **James and Denise currently own five acres of land with buildings. Will this be a problem in the future?**
2. **What will happen as the landowners pass on? Is this a potential problem?**
3. **What should they do to prepare for various rented land tracts that may be transferred to subsequent generations?**
4. **If James's and Denise's children want to begin farming with them, how could they help them achieve that goal?**
5. **Is Ed's and Joanne's estate plan fair to all their children?**

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# Loomis Family Farm Transition Timeline

Ed and Joanne		1962	1964	1970	1976	1990	1992	1998	2001	2006	2007	2008	2009	2010	2011	2012	2013	2014	
<b>Activity</b>																			
<b>Personal</b>		Began farming.									Began phased retirement.				Completed phased retirement.				
<b>Land</b>	<b>Purchases and transfers</b>				Purchased 80 A		Purchased 80 A	Purchased 20 A	Purchased 80 A		Transferred 1/5 of rented land base to James.	Transferred additional 1/5 of rented land base to James.	Transferred additional 1/5 of rented land base to James.	Transferred additional 1/5 of land base to James.	Transferred remaining 1/5 of rented land base to James.	Crop share leased 260 A with James.			
	<b>Rented or crop shared</b>		Leased additional 160 A crop share.	Leased additional 240 A crop share.		Leased additional land from extended family and non family members from 1977-1991.													
	<b>Acres farmed</b>	160	320	560	640	840	920	980	1066	900	740	580	420	260	0	0	0	0	0
<b>Machinery</b>	<b>Shared equipment</b>					Shared crop machinery.	Machinery sharing and replacement plan 1992-2006.												
	<b>Transfers</b>						Began additional machinery transfer using annual gift provision.	Continued machinery transfer using annual gift provision.	Continued machinery transfer using annual gift provision.	Continued machinery transfer using annual gift provision and for labor reimbursement.	Continued machinery transfer using annual gift provision.	Continued machinery transfer using annual gift provision.	Continued machinery transfer using annual gift provision.	Continued machinery transfer using annual gift provision.	Continued machinery transfer using annual gift provision.	Transferred final machinery using annual gift provision.	Gifted combine to James and equipment to Denise with lifetime gift exclusion and grain bin rental agreement.	Gifted tractor to James and remaining equipment to Denise.	
<b>Livestock</b>	<b>Sows (farrow-to-finish operation)</b>		Farrowed 15 sows twice/year				Sold finished swine and remaining breeding stock.												

# Loomis Family Farm Transition Timeline

	1962	1964	1970	1976	1990	1992	1998	2001	2006	2007	2008	2009	2010	2011	2012	2013	2014	
<b>James and Denise</b>																		
<b>Activity</b>																		
<b>Personal</b>					James graduated college with degree in ag. business. Employed at commodity organization.	Returned to family farm.												
<b>Land</b>											Received a 5 A building site from parents.							
<b>Purchases and transfers</b>																		
<b>Rented or crop shared</b>						Entered crop share lease with grandfather on 345 A.	Rented additional land and crop shared from non-family members from 1993-2006.	Rented additional land transferred from Ed and Joanne.								Leased 260 A owned by Ed and Joanne.		
<b>Acres farmed</b>						345	900	1060	1220	1380	1540	1700	1960	1960			1960	
<b>Machinery</b>						Machinery sharing and replacement plan 1992-2006.												
<b>Shared equipment</b>																		
<b>Transfers</b>								Began receiving older machinery via annual gift.			Received machinery via annual gift.				Received final machinery via annual gift.		Received combine from Ed and Joanne with grain bin rental agreement.	
<b>Facilities</b>						Used parents' hog facilities.					Built a hog finishing facility.							
<b>Livestock</b>						Bought swine breeding stock; farrowed 18 sows twice/year; sold 300 market hogs/year.	Farrowed 50 sows twice/year.	Farrowed 50 sows twice/year; sold 1,000 market hogs/year.										
<b>Sows (farrow-to-finish operation)</b>								Farrowed 60 sows twice/year; retained and sold 1,100 replacement gilts and market hogs/year.										
																		Experienced some disease issues.