



## Penn State Cooperative Extension Capitol Region Dairy Team

### TRANSFERRING YOUR FARM ASSETS

Roland P. Freund  
Regional Farm  
Management Agent

*Editor's Note: This is the second in the series on farm business transfer. In the previous article the author posed the question: "Will your family farm continue?" and discussed the factors which might make that possible.*

Building equity in the hands of the next farming generation is the most important thing that a family can do to ensure that the family farm will continue.

The farm is a very complex business. Transferring it is normally not just a matter of signing over a bunch of stock in "Farm Incorporated." In most cases we need to divide the farm into its component parts. Each of these parts can be transferred separately. A different timeframe and a different strategy can be considered for each part. The farm can be divided into some basic categories:

- The business operation. This is the heart and soul of the business. It is the annual production of crops and livestock and milk. It includes everything that we list under annual income and expenses on the Schedule F of our tax return. Inventories of inputs and product, and the accounts receivable and payable, are included. Only assets and liabilities in the "Current" section of the Balance Sheet are included.

It is possible to transfer the operation from one person to another party just by opening up a checking account and a new account book in the new party's name. All the assets listed below can be leased or hired. Feed and input inventories can be purchased as needed by the new operation from the old owner.

The next generation should get some ownership, management responsibility, and authority in the operation soon after they are committed to the farm or at least by age 30. This gives them experience in control of the production and finances of the business. How this can be organized and accomplished will be discussed in our next news article.

- Breeding livestock and machinery. These are the assets where the junior generation can easily build substantial equity. Dairy cows in a herd are turned over every 3 or 4 years. Farm machinery on average is replaced about every 10 years. Old cows and machinery can be leased by the new operation.

The business agreement can specify that from the start of the new business all heifers (calves?) born will belong to the new oper-



Roland P. Freund

ation. From a specified date, all machinery will be purchased by the new operation. Then, after four years, most cattle, and after 10 years most machinery will be owned by the new business.

- Buildings and structures. These are depreciable assets. If there is any remaining useful life, they can be leased from the owners by the new operation. The land and these structures are often owned by grandparents while grandkids are running the operation. There is nothing wrong with that.

But it is important that any new facilities, built and paid for by the new operation, be owned by the new business. The structures should not add to grandparents' estate just because they stand on their land. This will require some negotiations with lenders and special legal agreements to make this possible. That's better than to make junior buy his own facility from a family estate.

- Farm residence and land. These should be the last things on the ownership priority list of the younger farm generation. They can generally be leased for a fraction of the mortgage payment to purchase them. They are good things for the grannies to hold onto for security and retirement income. Until Federal Estate Taxes are eliminated, they get a stepped-up basis in granny's estate.

When they are in a sound financial position, having built sufficient equity, the junior generation should purchase the neighboring farm — if that fits the plan for the future of the business. This will keep it totally out of the parents' estates.

- Farm transfer vehicles. In the final installment of this series, we will discuss business structures which can facilitate the transfer process. We will also talk about the implications of sales and gifts.

## Nittany Lion Fall Classic Today In Ag Arena



STATE COLLEGE (Centre Co.) — Today is the 18th annual Nittany Lion Fall Classic, beginning at 11 a.m. here at the Ag Arena. The Holstein consignment sale is one of the major events of the Dairy Science Club at Penn State. Seventy-four top Holstein consignments are being offered by many of the region's top breeders. The consignments were chosen by the Penn State students assembled here, who served on the selection committee. In photo are Sale Chair Joshua Hushon, with calf, and Assistant Chair Jeremiah Fearnley, at left. Also pictured, front row, from left, are Marie Cudoc, Lori Connelly, Nicki Over, Emily Cloninger, Doreen Delp, and Dave Miklic. Back row, Mandy Jewart, Cassie Miller, Jess Worobey, and John Couch.

## Penn State Dairy Alliance Introduces Management Training

UNIVERSITY PARK (Centre Co.) — Penn State Dairy Alliance has developed a program to provide hands-on training in data collection and interpretation for chief financial officers (CFOs) of dairy farm businesses.

The BusinessSense program offers a unique combination of formal instruction, group discussion, and hands-on computer analysis in a small group setting, providing participants with the opportunity to learn from each other as well as the instructors.

According to Brad Hilty, information management specialist with Penn State's Dairy Alliance Program, "Monitoring business performance is critical to maintaining a competitive position in today's dairy environment." Key decision-makers of the business must know what data is important and how to interpret it. Hilty said, "The chief financial officer

of the business, which in many cases is the dairy producer and farm owner or their spouse, must know how to collect, organize, process, and report data in a format that is more easily interpreted."

Instructors are Brad Hilty, information specialist for Dairy Alliance and Jeff Hyde, assistant professor of agricultural economics and farm business management specialist with Penn State's Department of Agricultural Economics and Rural Sociology. The program is being offered around the state. Each session begins at 9:30 a.m. and ends at 3 p.m.

Lancaster County Series is being offered cooperation with the Lancaster County Cooperative Extension Service and will be at the Lancaster County Farm and Home Center on Nov. 14, Dec. 14, and Jan. 22.

North Central (Bradford, Tioga, and Potter counties) dates

are Dec. 19, Jan. 24, and Feb. 7. The location will be announced at a later date.

Northwest (Erie, Warren, Crawford, Venango, Forest, Mercer, Mercer, and Clarion counties) dates are Dec. 6, Jan. 7, and Jan. 8 at the Link To Learn Computer Training Center in the Crawford County Industrial Park in Meadville.

Program cost is \$150 for all three meetings. Additional individuals from the business can attend for an additional fee of \$65 each. Checks should be made payable to "Penn State University."

For more information, contact Tammy A. Perkins, Program Manager, Dairy Alliance, 324 Henning Building University Park, PA 16802, (888) 373-7232 or (814) 865-4682, fax (814) 865-4686, or e-mail tap10@psu.edu. Website is www.dairyalliance.org.

## PDMP Welcomes Progressive Producers To Membership Meeting

MARTINSBURG (Blair Co.) — Want to meet and interact with other progressive dairy managers? Are you interested in the latest technology and issues?

The Professional Dairy Managers of Pennsylvania (PDMP) and the Randy and Karen Huntsman family of Pennsylvania Fair Valley Farm in Martinsburg encourage progressive dairy managers to attend PDMP's Membership Meeting Nov. 15.

The day will start at 9 a.m. with a tour of the farm, followed by lunch at the Martinsburg

Community Center. In the afternoon, Kurt Ruppel of Cargill will talk about Feed Handling. PDMP will also have a discussion about "Growing Pennsylvania Dairy." Sponsors will provide lunch.

The objective of PDMP is to foster a favorable dairy business climate in Pennsylvania for progressive producers. Members are dedicated to promoting the well-being of their businesses, families, and communities. Through tours, discussion groups and workshops that address current needs, PDMP is providing opportunities

for members to work collectively, support each other and share ideas.

If you would like learn more about PDMP membership, call (888) 373-7232 by Nov. 12 to make your reservation for this opportunity to socialize and learn with producers.

Advance registration is required, but this meeting is open to prospective members. You may also view PDMP's Website at <http://www.das.psu.edu/user/pdmp/> for a complete agenda and directions to the farm.

### GROWER & MARKETER FEATURES FLORICULTURE AND IPM

It's as good a time as any to look toward spring flower and bedding opportunities. *Lancaster Farming* has scheduled its *Grower & Marketer*, a section for the eastern U.S. vegetable, fruit, nursery and direct marketing industries in the Dec. 8 issue. Included will be information on floriculture and IPM, interviews with regional growers, and tips for the upcoming planting and marketing season.

