

Freeze estate size before value gets out of control



Estate-Plan Edge
By CURT FERGUSON

INFLATION created this problem for me," said Bill. Mary nodded. "What do we do now that our farm ground has appreciated so much? There seems to be no end in sight!" Another challenge faced by a couple with a high net worth is the increasing value of their estate.

Briefs

Cochran makes Hall of Fame

Don Cochran, accredited rural appraiser, has been named to the Illinois Society of Professional Farm Managers and Rural Appraisers' "Hall of Fame" for his many years of service to the organization and to agriculture in Illinois. The award was presented at the organization's annual meeting held in Champaign/Urbana. Don and his wife, Doris, own and operate Cochran Ag Services, an agricultural appraisal company located in Wheeler. Don grew up on a grain and hog farm in Jasper County and graduated from the University of Illinois in 1973. He also has an MBA from Lewis University. He worked as a credit officer with the Federal Land Bank of St. Louis and the Illinois Farm Development Authority. He received his accredited rural appraiser designation in 1990 and was president of the Illinois Society of Professional Farm Managers and Rural Appraisers in 2001. The Hall of Fame award has been presented only 29 times in the group's 79-year history.

Groups unite on DDG research

The National Pork Checkoff Board, the Illinois Pork Producers and the Illinois Corn Marketing Board Association are partnering in new research to improve nutrient utilization of dried distillers grains in swine rations. The groups are in the process of reviewing research proposals for 2008. Funding decisions will be made in early March. The 2008 Pork Checkoff programming budget for nutritional efficiency efforts is \$500,000. The ICMB has dedicated up to \$500,000 of its 2008 budget to similar research to further develop and improve DDG for the pork and livestock industry.

ADM to test CO₂ underground

A project to test carbon dioxide storage capacity deep below Archer Daniels Midland Co.'s facility in Decatur is scheduled to begin this spring. The company will partner with the Midwest Geological Sequestration Consortium to work on the \$84.3 million project. It's one of seven projects the U.S. Department of Energy is funding to demonstrate carbon dioxide storage capacity in underground formations throughout the United States.

Like a dog chasing a car, sometimes we don't know what to do with what we've caught. Many a farm family started decades ago with not much, worked hard, lived frugally and saved by reinvesting every spare dollar in mortgage reduction. Then, if everything went reasonably well, they rather suddenly found themselves sitting on hundreds of acres of debt-free and rapidly appreciating real estate.

With land prices around the state nearly doubling in the past few years and commodity prices continuing to climb, is there nothing that can be done?

Using the \$12,000 per year gift tax exclusion, Bill and Mary could each give a couple of acres annually to each of their children. However, with 1,500 acres worth \$5,000 per acre appreciating at about 7% to 10% per year, their estate is growing by over half a million dollars per year. They cannot give it away fast enough to make a dent. At this rate, their estate will be worth \$15 million in 10 years.

Discounting strategies

Bill and Mary implement some "discounting" strategies. They give a charitable foundation a perpetual conservation easement on 500 acres, prohibiting commercial development. This reduces the market value of that land to \$1,875,000. Then they form a limited partnership and deed their 1,500 farm acres to the partnership. The terms of the partnership prohibit transfer of the

assets outside of the family. Although the partnership now owns farm ground appraised at \$6,875,000, a professional appraiser determines that each 1% of the partnership would only be worth \$45,000.

Sale to a trust

Bill now creates a special type of trust for his children. He makes a cash gift of \$500,000 to the trust. The trust will never be included in Bill or Mary's estate, nor the estates of their descendants.

Bill sells 98% of the limited partnership interests in exchange for \$500,000, plus a promissory note of \$3,910,000. The note bears interest at 4.5%. The trust, owning 98% of the partnership, has to pay \$250,000 per year to Bill and Mary for about 26 years. If they die before it is paid off, the note will remain payable to their living trusts, which will pass to their children.

The net income of the farm is typically about 3.5%, or \$262,500. Of that income, 98% goes to the trust, which uses the money to pay the note.

Because of the way the trust and note are established, there is no capital gain on the sale or income tax on the interest. The farm income remains taxable to Bill and Mary much as it was before this transaction. To the extent the farm income is more, it will stay in the trust where it remains with the rest of the partnership, insulated from estate and gift taxes forever.

More land could be bought. The terms of the trust may permit distribu-

tions of income and principal to their descendants in the discretion of the trustee, as needed. The trust can be divided among the children now or in the future, and each child can be given broad control over his or her share.

Fast-forward a few years

In 10 years, instead of Bill and Mary having a taxable estate worth \$15 million, they own only 2% of the partnership and the remaining balance of the promissory note, which is less than \$3 million. They probably still own their home outside of the partnership, and to the extent they haven't been spending all of the \$250,000 annual payments, they might be growing a savings account.

By looking ahead and attacking their "growing" problem, they effectively discounted and froze the value of their estate at around \$4.5 million, and limited the growth to the 4.5% they receive in interest. Even if land prices had gone flat, instead of a \$7.5 million estate, their taxable estate is under \$4 million and all of the land is protected in the perpetually tax free trust.

As is so often the case, this is an overly simplified illustration. The true complexities underlying estate freeze planning are mind-boggling. You should embark on such planning only with an experienced professional adviser, taking into account the specific asset and income situation and, most importantly, the unique family goals, challenges and issues.

Like to comment?

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GROWING MORE GRASS CAN BOOST PROFITABILITY

Sorting through the opportunities in today's ag economy can be a puzzle. The cattle market looks promising. But if you have grain, selling it may provide better returns. Hay is no bargain either. Grazing can offer a lower-cost option. But who has extra pasture these days?

Start at home. Making the most of the rangeland and pastures you already own or lease is a great first step toward bigger profits. Improving those grasslands through weed and brush control, along with proper management, can help increase grass production and improve forage utilization. Most importantly, it gives you greater flexibility to manage your business and capitalize on market opportunities.

Remove the competition. Controlling even light to moderate broadleaf weed infestations can double grass production. Whether that grass goes toward feeding more cattle, extending the grazing season, or to the local hay auction, it's easy to see how harvesting more pounds from every pasture acre — whether pounds of grass or pounds of beef — benefits the bottom line.

Increase utilization. Cattle are picky. Given a choice, they'll avoid unpalatable plants or grazing where they could get a nose full of thorns. That can lead to poor

pasture utilization and selective grazing. Broadleaf weed control can take out those undesirable plants, allowing higher-value forage grasses to re-establish.

Managing costs and opportunities. Making the most of your grazing lands through effective, lasting weed and brush control, coupled with sound management, offers a wide range of bottom-line benefits:

- Reduced reliance on high-priced grain and hay
- More cost-effective cow maintenance
- Improved herd health; reduced vet bills and treatment costs
- Long-term land stewardship

Start with the experts. Dow AgroSciences' legacy in rangeland and pasture management remains unmatched. We're committed to the cattle industry and land stewardship, and to researching and developing new products specifically for rangeland and pasture. We offer a complete portfolio of weed and brush control solutions, along with the support you need to get the job done right.

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