



Succession Planning-Mitigating Risk and Making Successful Transitions

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Overview

Current Transfer Tax Environment

Opportunities for Advanced Estate Planning Techniques

- Goals for advanced techniques for closely-held business interests/farms
- Structure of advanced techniques

Farm-Specific Succession Techniques

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Current Transfer Tax Environment

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Federal Estate/Gift Tax

- Tax on assets you pass to a non-spouse during life or at death
- 2025 annual gift tax exclusion amount = \$19,000/person
 - Unlimited marital deduction allows for tax-free transfer of any assets during life to a citizen spouse
- 2025 estate tax exemption amount = \$13.90 million/person adjusted for inflation
 - Lifetime gifts reduce the amount of this exemption available at death
 - Unlimited marital deduction allows for tax-free transfer of any assets at death to a citizen spouse
- The current estate tax exemption amount is scheduled to sunset on January 1, 2026 and return to \$5 million/person adjusted for inflation
 - Estimated 2026 exemption = ~\$7 million/person
 - Congressional action seems more likely than not
- Flat 40% tax on any assets over exemption amount


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Federal Generation-Skipping Transfer (GST) Tax

- Tax on assets directed to certain people who are more than one generation removed from you (e.g. grandchildren)
 - Long-term Trusts often use
 - Children have benefits but assets excluded from taxable estate
- GST exemption is tied to estate tax exemption
 - 2025 GST exemption amount = \$13.99 million/person adjusted for inflation
 - Use of GST exemption is similar, but not identical, to unified credit use

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Iowa Inheritance Tax


- State tax on transfers to certain beneficiaries upon receipt of inheritance
- Spouse, descendants, ascendants, and charities are exempt (includes step and adopted individuals)
- More remote relatives and unrelated third parties pay a tax depending upon their relationship to the decedent at a rate of 5-15%
- Different states impose different state-level transfer taxes (estate and/or inheritance taxes)
- Repealed in Iowa and effectively obsolete (only applicable to historical deaths)

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Advanced Estate Planning Techniques


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General Goals of Advanced Estate Planning

- Income Tax basis planning
 - Consider basis adjustment (step up or step down) for assets at death
- Leverage federal estate tax exemptions (IDGTs, SLATs)
 - Freeze the value of assets which are likely to appreciate by gifting or selling them during life
- Funding payment of estimated estate taxes (ILITs)
 - Invest in assets outside of taxable estate which may be used to fund future estate tax payments
- Charitable Planning (CRUTs)
 - Use of beneficiary designations, irrevocable trusts, etc. to achieve charitable goals
 - Potential for current income tax deduction in some cases

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Intentionally Defective Grantor Trust (IDGT) Goals

- Freeze the value of assets which are likely to appreciate by gifting and/or selling them during life
- Use it before you lose it relative to Congressional (in)action
- Use the “tax burn” to supercharge transfers
- Can be a generation-skipping transfer
- Directed Trust/Trust Protectors possible

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IDGT Mechanics

- Grantor sets up an irrevocable trust for the benefit of children, grandchildren, etc.
- Grantor then gifts and/or sells (in exchange for a promissory note) assets to the irrevocable trust which are likely to appreciate
 - Assets gifted reduce grantor's unified credit by FMV of assets
 - Assets sold require the irrevocable trust pay the grantor over the term of the promissory note
- Grantor pays any income taxes associated with the irrevocable trust assets which results in an even larger gift to beneficiaries (e.g. "tax burn")
- Usually can be "turned off" in the future
- Directed Trust/Trust protectors can have important role

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Spousal Lifetime Access Trust (SLAT) Goals

- Similar goals to IDGT (SLAT is an IDGT)
- Not quite as aggressive as general IDGT because of spousal interests
- Flexibility for the spouse with testamentary powers of appointment
- Can be a generation-skipping transfer

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SLAT Mechanics

- Grantor sets up an irrevocable trust for the benefit of spouse, children, etc.
- Spouse has cash flow for life
- Potential for testamentary special power of appointment
- Difficult to “turn off” grantor trust status during both lives
- Directed Trust/Trust protectors can have important role
- Beware of reciprocal trust doctrine for 2 SLATs in a married couple
- Order of death planning

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Irrevocable Life Insurance Trust (ILIT) Goals

- Utilize annual exclusion gifting (\$19,000/person/year in 2025)
- Invest in assets outside of taxable estate which may be used to fund future estate tax payments
- Life insurance death benefit is usually income tax free
- Limited/low investment risk

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Irrevocable Lift Insurance Trust (ILIT)

- Grantor sets up an irrevocable trust for the benefit of spouse, children, grandchildren, etc.
- Grantor gifts specific dollar amount to the irrevocable trust which will fund a life insurance policy on the life of the grantor
- Death benefit of the life insurance policy should be designed to cover any expected estate tax liability due at the grantor's death
- Grantor gifts the irrevocable trust an amount equal to the amount necessary to pay the annual life insurance premium

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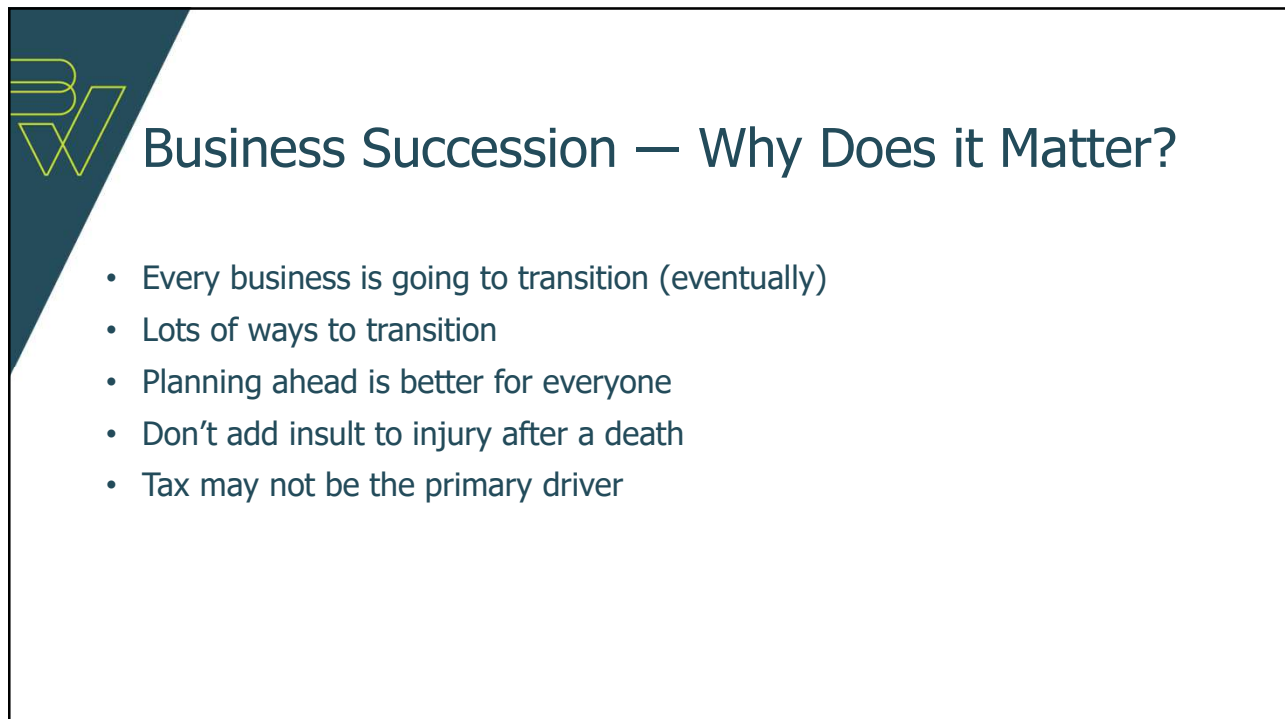
Charitable Remainder Trust (CRAT/CRUT)

- Grantor sets up an irrevocable trust with a charity as the remainder beneficiary
 - Can be for up to two lives or a term of years
 - Charity can usually be changed through estate planning documents
 - Must be at least a 10% charitable interest (actuarially)
- Current income tax deduction; annuity/unitrust payments provide income tax liability as received
- CRT can sell assets without paying gain on the sale
- Proceeds invested in securities to fund payments to current beneficiaries


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Common Goals in a Transition

- Get value of out of life's work
- Ensure viability of business/farm in future
- Protect family, employees, customers, and community
- Estate and income tax minimization can be components
 - Estate "tax" planning is NOT the same as business succession planning
 - There are, however, overlaps and interactions

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Structure of Operation is Paramount

- "Simple" is not always best
- Complex is not always workable
- Doesn't need to be "overnight"
- Avoid probate with revocable trusts
- There should be discussion among stakeholders (if possible)
- "Fair" vs. Equal

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Undivided Interests in Real Estate Are Rarely Appropriate

- How do you sell an undivided interest in a farm field?
- Management is a mess for undivided interests
- Exception to the rule is structured sales
- Nothing should prevent the “fair” allocation of interests

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Economics and Management Are Not Bound Together

- Consider “silent partner” structures
- Do you need to be an owner to be a manager?
- Non-voting units/shares very valuable planning tool

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Operations and Real Estate Are Not Bound Together

- Land base is often the primary asset
- Equipment depreciates and land appreciates
- Separation of operations can be very helpful planning tool
- Long-term leases that are a math problem
- Consider “farmability”


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Use Continuing Trusts

- Creditor protection is often undervalued
- Inter-generational tax planning can be easier with continuing trusts
- You can probably give your children more control than you think
- Powers of appointment are one of my favorite methods


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Succession Could Start Tomorrow

- Powers of Attorney are integral components to any succession plan
- Family food fights start early
- Avoiding a guardianship and conservatorship
- There can be many costs to inaction

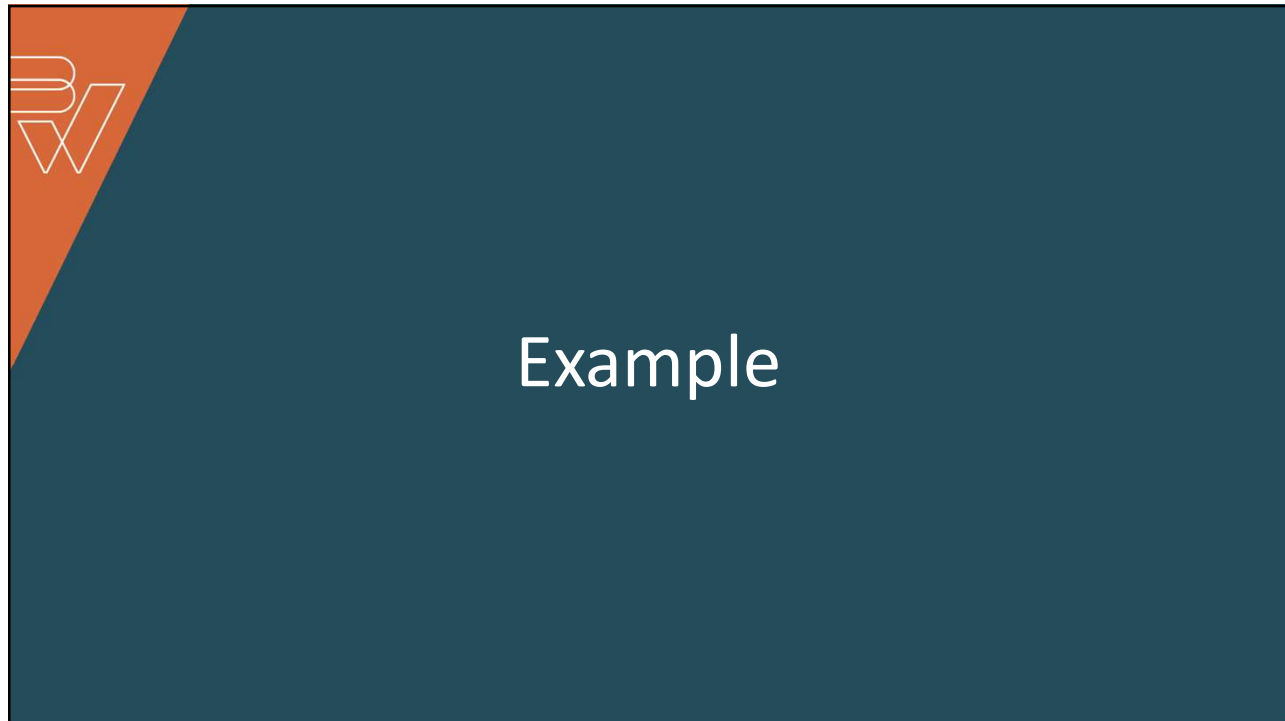
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Obtain the Correct Advisory Team

- The right people are hard to find
- Keep team happy and engaged
- Hire a good accountant, lawyer, banker, and broker
- Medical analogy
- Consider advisor succession

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A presentation slide with a white background. In the top-left corner, there is a dark blue triangle containing a yellow stylized logo consisting of the letters 'R' and 'W'. The title 'Retirement of a Big Operator' is centered in the upper half of the slide in a dark blue, sans-serif font. Below the title, a paragraph of text is left-aligned.

Jack and Jill Abel own approximately 3,000 acres of Iowa farmland and farm additional acres on a rental basis. Jack is 70 and Jill is 68. They have been very income tax-conscious, own a sizable amount of farm equipment, have substantial SEP IRAs, and do not have another generation who wants to actively farm. They are also charitably inclined.

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Potential Planning Opportunities

- Form a limited liability company to hold their farmland
 - Gift minority (and discounted) LLC interests to SLAT and IDGT
 - Sell additional LLC interests to IDGT so that all of the ground is “frozen” for estate tax purposes
 - Use cash flow from cash rent/share crop to pay down IDGT note
 - Gift interests through forgiveness of promissory note as unified credit moves up with inflation
- Contribute farm equipment to CRUT
 - Sell equipment “inside” the CRUT
 - Use cash flow from CRUT to assist with lifestyle for remainder of their lives
- Swap life insurance death benefit for SEP IRA interests
 - Assuming insurability, obtain a survivorship/second to die life insurance policy of Jack and Jill
 - Survivorship life insurance is owned by an ILIT
 - RMDs from the SEP IRA, after paying income tax, are used to fund life insurance premiums on survivorship policy