

ESTATE PLANNING CHECKLIST FOR FARM FAMILIES

PROGRAMS AND SERVICES



Estate Planning Checklist for Farm Families

Original written by Derek J. Fryer, CA

Modified and re-published by the Saskatchewan Ministry of Agriculture (2008)

Acknowledgements

The publishers acknowledge with thanks the contributions made by the following:

Derek J. Fryer, CA, a (retired) partner in the Chilliwack office of KPMG, who wrote the publication.

Howard Joynt, British Columbia Ministry of Agriculture, Fisheries and Food; who initiated and led the project.

Merle Good, Alberta Department of Agriculture and Rural Development and Mike Pylypchuk, Saskatchewan Ministry of Agriculture for their contributions and review of the publication.

The farm families who reviewed the publication to ensure it meets the needs of the farming community.

For additional information, contact:

Saskatchewan Ministry of Agriculture
Agriculture Knowledge Centre, at 1-866-457-2377

Table of Contents

	Page
Introduction	1
The Family Farm Transfer Process	2
Step 1 - Collecting the Data	4
Step 2 - Reviewing the Critical Issues	6
Step 3 - Setting Your Goals	11
Step 4 - Becoming Familiar with the Estate Planning Tools	14
What are these tools?.....	14
• Tax tools and issues	15
• Business arrangements	17
• Life interests	18
• Security.....	19
• Methods of owning property.....	19
• Will planning.....	19
• Life insurance	20
Examples of how the tools might be used	21
Where Do You Go From Here?.....	24
Appendices	
A - Collecting the data	25
B - What are your income needs?	29
C - What can the farm afford to pay you?.....	30

Introduction

For many people, dealing with estate planning and farm transfer arrangements seems like a very difficult task. It's something that one would just as soon avoid altogether.

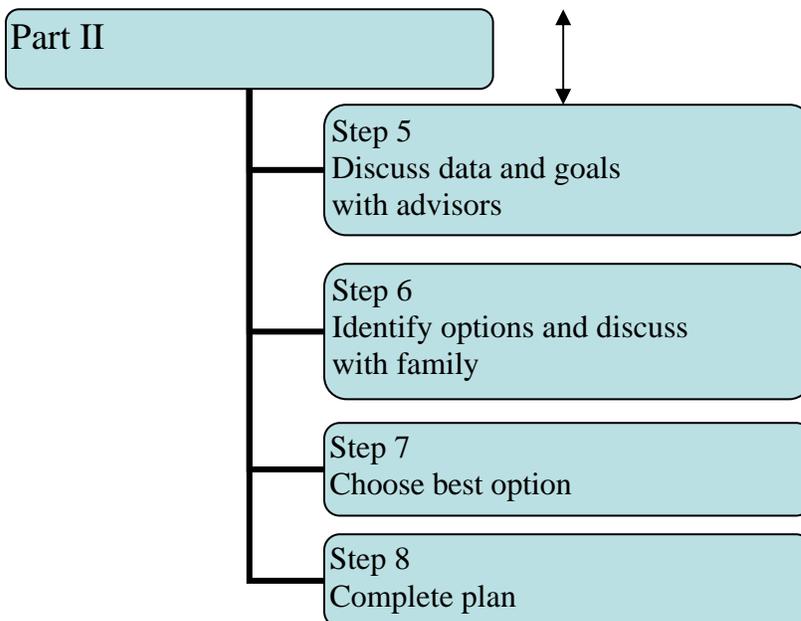
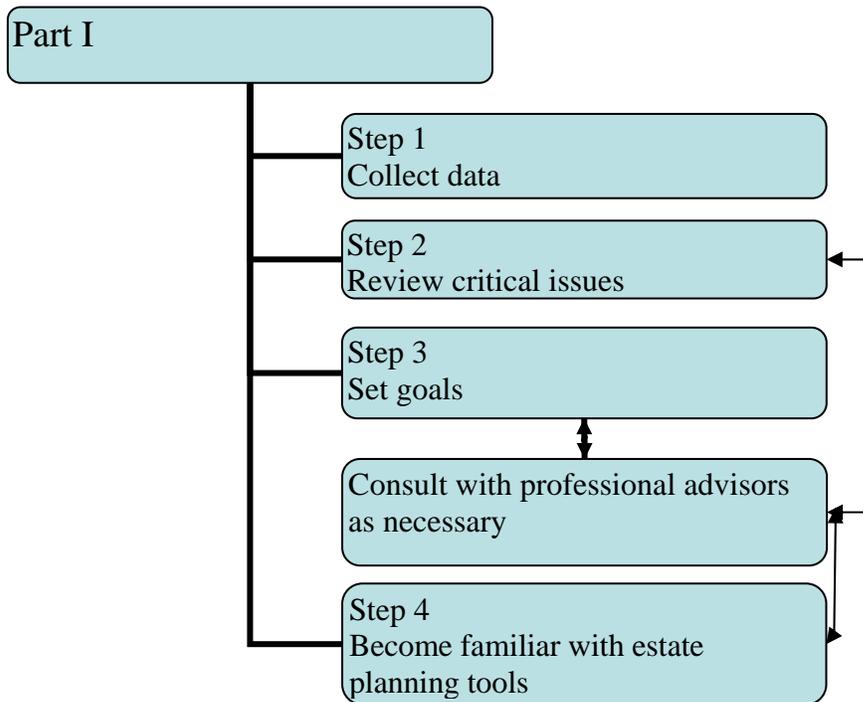
It's our hope that the Estate Planning Checklist will make this task a little more manageable. It has been written for the parents in a farming family and deals mainly with the transfer of the farm to the next generation during their lifetime.

This publication should also be useful to the child who is planning to take over the farm. This is important because in some farm families it's the child who takes the initiative and begins the discussion with his or her parents.

While it's not possible to make estate planning entirely painless, it will be less overwhelming if it's approached carefully, step by step. We encourage you to use this publication as a starting point in your planning process, and review other more in-depth material from provincial Ministry staff or your advisors as you need it.

The Family Farm Transfer Process

An estate plan usually results in the transfer of a farm from one generation to the next. The entire family farm transfer process can be divided into two parts, each consisting of four steps:



The Family Farm Transfer Process

This publication deals with the first four steps - Part I is the estate planning process. These steps deal with information gathering and goal setting. The best way to approach them is with the "big picture" in mind. In other words, don't get too involved in the details, particularly in regard to income taxes. Deal with these details in Part II of the process with the help of your advisor.

Estate planning is not something that can be accomplished in a few days. Your plan may take several years to finalize. In the course of your discussions you will run into issues that are difficult to resolve and objectives that may conflict. Some of your goals may need to be reconsidered when circumstances change, or as a result of the financial analysis you will carry out in Part II of the process. Don't be dismayed when you encounter these roadblocks on the path to a completed estate plan. When your plan is finalized, you will have the satisfaction of knowing that you have done your best to meet the needs, goals and wishes of everyone involved.

Communication is a vital element in the process. Initially the discussions will be between you, your wife or husband, as the case may be, and perhaps your professional advisors. Subsequently your farming child or children will be involved, and ultimately your other children as well. A successful estate plan is one that is well understood by all of your children.

Step 1 - Collecting the Data

The first step in the estate planning process is to collect financial and other information to help in family discussions and assist your advisors.

The data that you will need is as follows:

Financial Information

- ✓ the approximate value of your farm (Appendix A - page 25 provides a format for calculating this value)
- ✓ the original cost of your land and buildings, their valuation-day value, if you acquired them before 1971 and the legal description (Appendix A - page 26 can be used to record this information)
- ✓ the manner in which your farm assets are owned (e.g. sole proprietor (one spouse), jointly as tenants in common or joint-tenants, partnership or company)
- ✓ the manner in which your farm assets are registered (is this consistent with who you think owns them?)
- ✓ the manner in which your farm assets are used now and have been used in the past. In other words, are they (or have they been) farmed by you or somebody else?
- ✓ the nature of the security for any farm debts (e.g. mortgage or agreement for sale)
- ✓ your recent financial statements for the farm (i.e. last three years)
- ✓ the amount of your quota write-offs since 1971 (this is something you may wish to leave to your accountant)
- ✓ your recent personal income tax returns (your accountant will probably want to see them from 1985 onwards)
- ✓ details of significant non-farm assets such as investments (see Appendix A, pages 27 and 28)
- ✓ details of life insurance policies (see Appendix A, page 28)

Personal Information

- ✓ details about the family, including
 - ◆ the number of children, their ages, marital status, address and present involvement in the farm
 - ◆ additional details about the non-farm children including current employment and the need for continuing support from you
 - ◆ any special circumstances or needs

Agreements and Other Documents

- ✓ your most recent wills
- ✓ your partnership agreement, if applicable
- ✓ lease agreements
- ✓ your company's Articles and Memorandum (your lawyer will have a copy of these documents)
- ✓ your valuation day appraisal, if you had one prepared
- ✓ your latest appraisal, if it is fairly current



Step 2 - Reviewing the Critical Issues

This step is an important one. You will need to review a number of personal and financial issues to decide on some broad objectives regarding the transfer of the farm.

In both this phase and the next you will be making financial decisions which will be affected by income tax. You may need your financial advisor to help you work through the calculations, so we recommend for the time being you think on an after-tax basis. In other words, when you estimate what you will need to receive from your farming child after retirement, make your estimate on an after-tax basis. Take the same approach when you estimate what the farm can afford to pay you.

The issues critical in most farm transfer arrangements are listed below under the five main headings:

Ownership

Control

Security

On-Farm Living

Equal vs. Equitable Treatment of Children

Under each issue, we have provided some points for your consideration.

In families where there are non-farming children, the issue that often gives parents the most difficulty is deciding what type of arrangement will be equitable to all of their children. An equitable arrangement is not necessarily an equal one. In many situations, the equitable arrangement will be one in which the farming child receives a greater portion of the parents' estate so that he or she is able to continue running the family business.

The arrangement that you consider to be equitable might be completely different from your neighbour's even though your situations might be fairly similar.

Ownership

1. Are you looking for an "interim" arrangement at this stage, or are you considering a full sale?

- ◆ Are you prepared for a complete change from farmer to creditor (or, if a company is involved, to a passive investor)?
- ◆ Are you sure which children want to be involved in the farm?
- ◆ Are there one or more children who may want to become involved later?
- ◆ How important is it that you retain ownership of some of the assets?
- ◆ If there is an "interim" arrangement, how concerned are you that the farming child might not have sufficient "comfort" as to how the overall plan will ultimately unfold?
- ◆ Could you work with your child on a partnership basis?
 - ◇ do you communicate well together?
 - ◇ could you treat your child as a business partner?

2. Are you concerned about the stability of your farming child's marriage?

This can be a significant issue because if there is a marriage breakdown, a son- or daughter-in-law could acquire a larger share of your estate than your own non-farm children.

- ◆ Does your child's marriage seem strong?
- ◆ Would you prefer not to transfer significant assets at this time?

Control

1. Is it important that you control the farm for a period of time?

- ◆ Is it important that you have some element of control while you still have a significant investment in the farm?
- ◆ Is it sufficient that you have some influence over major decisions such as the future purchase and sale of assets?
- ◆ Do you want to continue managing the farm?

Security

1. What importance do you place on security?

- ◆ Are you prepared to act as banker on a sale to your child or will you expect him or her to cash you out in whole or in part? If you do act as banker, will you want interest in the first few years of the agreement?
- ◆ Are you prepared to guarantee any bank indebtedness that your farming child might incur to buy you out?
- ◆ Do you want to remain on title until the child pays what is owed to you?

2. What future income (or debt repayments) do you need to receive from the farm? To help you in deciding this matter, estimate the income you will need to meet your living costs using Appendix B - page 29.

- ◆ What financial commitments do you have to your other children?
- ◆ Do you want to receive lump sum capital payments either at the time of sale, or in the future?
- ◆ Will you want a return on any funds owed to you by your child?

3. What is the farm's ability to make payments to you and support your child? To help you decide this, use Appendix C - page 30.

- ◆ Should the farm be expanded?
- ◆ Can the farm be down-sized?

On-Farm Living

1. Will you want to stay on or move off the farm?

- ◆ Does your child need to move onto the farm?
- ◆ If an additional home is needed, will you or your child move into the new house?
- ◆ Can your home be sub-divided from the farm?
- ◆ What is the cost of housing in town?

Equal vs. Equitable Treatment of Children

1. What assets will ultimately pass to your non-farm children?

- ◆ Are there non-farm assets which they might inherit?
- ◆ Are there any insurance policies which they might inherit?
- ◆ Will you be able to build up non-farming assets from the payments that the farming child might make to you?
- ◆ Is it likely that the non-farming children will inherit a receivable from your farm child or hold an interest in the farm?
- ◆ If so, how important is it that your farm child's ability to run the farm not be put at risk?

2. On the assumption that you want your overall plan to be equitable - how do you decide what is equitable?

- ◆ Should you be guided primarily by the resale value of your assets?
- ◆ Should you be guided primarily by the profit that your farming child will make from the farm in relation to the value of the labour that he or she contributes to it?
- ◆ How important is it that your farming child receives the farm intact?
- ◆ How important are the following:
 - ◇ the standard of living and prospects of the non-farming children
 - ◇ what you have given to them already (university tuition, loans, etc.)
 - ◇ what your farm child has contributed to the farm
 - ◇ the opportunities your farm child has foregone

3. Are you concerned that one or more of your children might challenge your overall estate plan, after your death? Even though this should be possible only where one or more of your children are not provided for adequately, there is the potential for trouble in many farm situations because children do not necessarily share in their parent's estate in an equal manner. If you are concerned, you will want to consult with a lawyer.

- ◆ Do you have non-farming children?
- ◆ Are they likely to disagree with your plans for the farm?

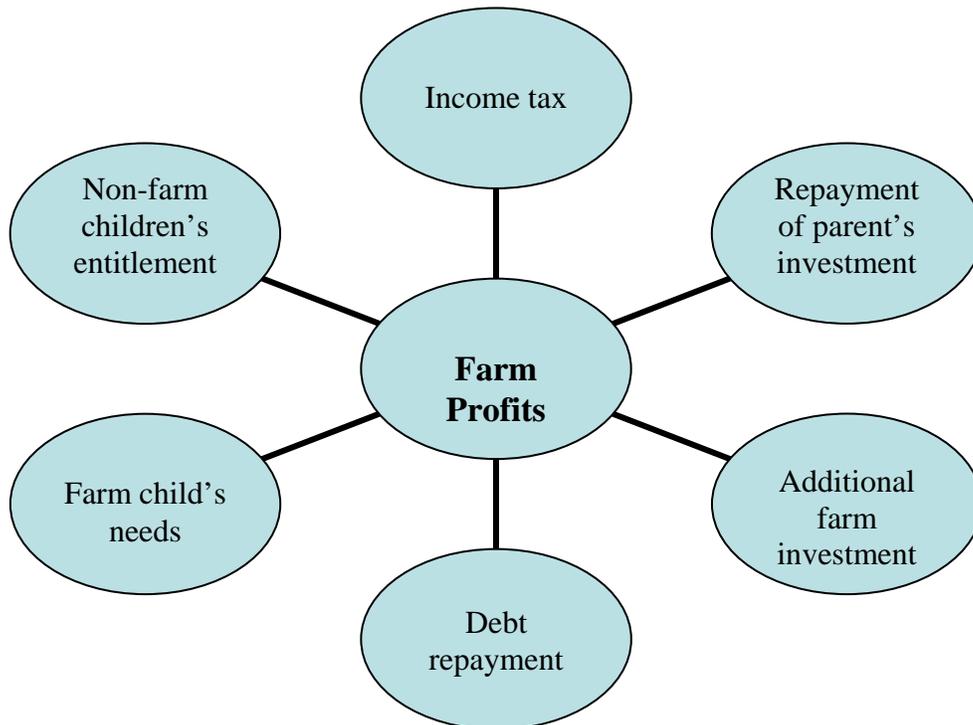
Step 3 - Setting Your Goals

In this step, you should continue to focus on broad objectives or goals - the details will be worked out later after you consult with your advisors. What you want to do here is arrive at some decisions based on your discussions of the five critical issues in Step 2.

There are several points to consider when you are setting your goals:

Avoid the "cash trap":

Keep in mind that profits must provide for a number of competing interests illustrated below:



The family farm can not usually be transferred to the next generation at fair market value without jeopardizing the ability of the farming child to meet the various needs depicted in the "cash trap" diagram. Some form of subsidization is usually necessary, in the form of a deferred withdrawal of the parents' investment, reduced interest rates, or a reduction in the transfer price. **The real question to be answered by you is whether the amount of subsidization required to make the transfer feasible is consistent with your goals.**

Separate "wants" and "needs":

Your wants might be sacrificed (or deferred) in order to complete an arrangement, but your needs must not be. Don't put your comfort or security at risk to transfer property to your children.

Ensure the arrangement is "bankable":

If one of your objectives is to receive a lump sum payment from your farming child, it will be important to ensure that the arrangement is "bankable". Your child may want to have a discussion with his or her financial institution at this stage so there is a general understanding of the security the institution would require and the approximate borrowing cost.

Treat your decisions as being preliminary:

Remember that until all of the tax calculations and other details have been worked out by your advisors, you will not be certain whether all of your goals can be achieved.

The goals that you establish will become the basis for negotiation with the family. Initially you might discuss them with your farm child only, but eventually, all of your children will need to be involved.

Write down your goals under the five critical headings:

Ownership _____

Control _____

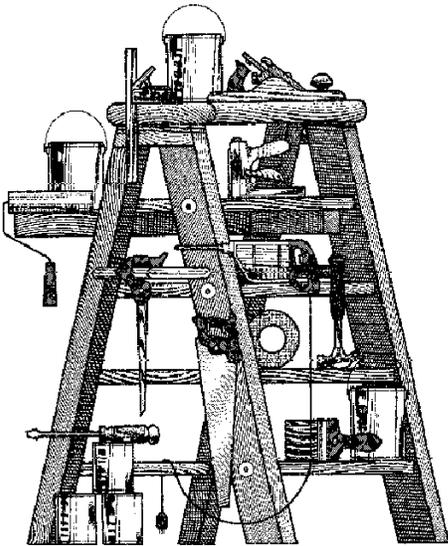
Security _____

On-farm living _____

Equal vs. equitable treatment of children _____

Step 4 - Becoming Familiar with the Estate Planning "Tools"

What are these tools?



This is the final step in the first part of the process. You have assembled all the information needed to develop the final plan, you have reviewed the critical issues and have reached tentative conclusions about the general direction you should be headed in. Now you need to gain an understanding of the "tools" that can assist you in getting where you want to go.

It's important to keep in mind that you are not trying to become a tax expert, a lawyer or a financial planner. You are simply trying to improve your understanding of the business arrangements or techniques that might be of

assistance to you. The intention here is to prepare you for the analysis that will be carried out in Part II of the process. This analysis will likely be carried out by your advisor but if you take the time to complete Step 4 you will be better able to discuss the various options with that person.

The "tools" we have described for you have been grouped under the following headings:

Tax Tools and Issues

Business Arrangements

Life Interests

Security

Methods of Owning Property

Will Planning

Life Insurance

1. Tax Tools and Issues

"Rollovers"

Certain types of farm property can be "rolled over" from a parent to a child. This is an extremely valuable tax concession because it means the property can be transferred from one generation to the next without tax. In essence, the child "steps into the shoes" of the parents and inherits the parent's tax cost. A "child" for this purpose also includes a son-in-law or daughter-in-law.

The type of farm property that is eligible for "rollover" includes the following:

- Land
- Buildings
- Machinery
- Quota
- Shares of certain farm companies
- Interests in certain farm partnerships

Your advisor will review with you several conditions which must be met before this "rollover" can be obtained. If you would like more information on "rollovers" before you meet with your advisor you can review Revenue Canada publications at www.cra-arc.gc.ca/E/pub/tp/it268r3sr/it268r3sr-e.html and www.cra-arc.gc.ca/E/pub/tp/it268r4/it268r4-e.html.

Note that the property eligible for "rollover" to a child does not include livestock. Despite this, livestock can be transferred to a child without any immediate tax consequences provided the purchase price is not paid at the time of sale. Where this happens, the parent usually receives a note from the child as evidence of the unpaid sales price which describes when the parent can demand payment or the dates on which payments are to be made.

Property can also be "rolled over" to a partnership or company. Here the "rollover" is obtained by the filing of a special election with Revenue Canada. The property eligible for this sort of "rollover" includes all the assets that can be "rolled" to a child, plus livestock as well. This type of "rollover" can be useful if it makes sense to transfer your farm to a partnership or to a company as the way of bringing your child into the business. Again, important conditions must be met, which will be reviewed with you when you begin to develop your plan in more detail.

Capital Gains Deduction

After March 18, 2007, farmers can realize up to \$750,000 of capital gains on qualifying farm property without being subject to tax by offsetting their gains with the capital gains deduction (CGD). Because only one-half of capital gains are subject to tax, the CGD can eliminate up to \$375,000 of taxable capital gains. If the mother and father own the farm property jointly, each may be entitled to this tax-free gain.

The CGD applies only to the gains on certain assets. Generally speaking these assets are:

- Land
- Buildings
- Quota
- Interests in certain farm partnerships
- Shares of certain farm companies

There are very complicated rules which determine which gains are eligible for the CGD and which individuals can use the deduction. This is an area that will have to be explored in depth with your advisor at the time your options are examined.

You should bear in mind that certain types of income that might be created on the transfer of your farm to a child (or to a partnership or company) will not be eligible for the CGD. These include:

- ◆ the income created on the sale of your livestock
- ◆ the recaptured depreciation on your buildings and machinery
- ◆ the recaptured write-offs on your quota

Clearly this is an important area in farm estate planning.

Capital Gains Reserves

If a farmer sells his or her land or buildings, an interest in a farm partnership or shares of a farm company and receives the sales proceeds over several years, he or she is usually able to spread the capital gain over a period of up to 10 years by claiming a reserve in respect of the unpaid sales price. Depending on the circumstances this can be a useful way of reducing the overall tax cost or preventing the refundable minimum tax from applying.

Other Tax Issues

Other potential tax issues that your advisor will have to discuss with you include the following:

- ◆ the possibility that you may be subject to the alternative minimum tax if you realize a large capital gain
- ◆ the possibility of having your old age security "clawed back" if you realize a large capital gain
- ◆ the possibility of the Saskatchewan Property Transfer Tax applying on the re-registration of your farm land
- ◆ the GST
- ◆ the Provincial Sales Tax in Saskatchewan
- ◆ the Corporation Capital Tax in B.C. (if you plan on using a company)

Clearly this tax commentary is very general and highlights only a few of the tax rules that might affect your final plan. However, it should give you a better idea of how you might achieve the general objectives you established in Step 3.

2. Business Arrangements

There are several different business arrangements you can use to transfer the farm to your child. The best arrangement for you will depend on factors such as:

- ◆ whether you want to continue to exercise some control over the farm. This control could be limited to major decisions such as the purchase or sale of significant assets or could include the day-to-day management of the farm as well
- ◆ whether you are looking for a temporary arrangement or an outright sale
- ◆ the value of your farm
- ◆ the number of children
- ◆ your current business arrangement

If you now carry on business as a **sole proprietor** you have tremendous flexibility in structuring an arrangement with your child and can consider any of the following:

- ◆ a direct sale of some or all of your assets
- ◆ a joint venture arrangement under which you contribute the use of your assets to a venture with your child. Under this arrangement you would continue to own the principal assets of the farm
- ◆ various types of leasing arrangements
- ◆ a partnership arrangement under which the child is taken in as a partner and there is a sharing of net profits
- ◆ a transfer to a company under which some or all of the growth accrues to the child and the control is held by you

If you now carry on business as a **partnership**, you could consider any of the following:

- ◆ bringing the child in as a partner. The child could share in the future growth in the value of the assets on a full or restricted basis
- ◆ a transfer to a company
- ◆ winding up the partnership and
 - ◇ selling or leasing assets to your child
 - ◇ entering into a joint venture arrangement

If your farm is owned by a **company**, your options are more limited. You might consider selling some or all of your shares to your child. Alternatively, if you do not want to transfer any of the existing value at this time you can arrange for the share capital to be reorganized so that future growth accrues to your child and the existing value (and control) remains with you.

3. Life Interests

If you own your land directly and are considering a sale of the property to a child but want to preserve your interest in your home, you can accomplish this through a life interest. This life interest would entitle you to the use of the property throughout the remainder of your life. Your interest would be registered so that it cannot be taken away or disposed of without your consent. Your child would receive what is called "a remainder interest", which guarantees ownership subject to the rights contained in your life interest.

4. Security

You can secure amounts owing to you as a result of a sale of land and buildings by:

- ◆ carrying out the transaction through an agreement for sale and retaining legal title until the debt is paid off
- ◆ taking mortgage security

In British Columbia, Saskatchewan and Alberta, there is also a *Personal Property Security Act*, which is intended to provide a uniform system for secured transactions other than real estate.

5. Methods of Owning Property

Where property (such as land) is owned jointly with another person, it can either be held by them as tenants in common or as joint tenants. There are important distinctions between these methods of ownership:

- ◆ if property is held in a tenancy in common, each co-owner is able to bequeath or otherwise dispose of their interest in the property independently of the other co-owners
- ◆ if property is held in a joint tenancy arrangement then, on the death of one of the co-owners, the deceased owner's interest passes automatically to the surviving joint tenant(s), outside of the deceased's estate. Because the deceased person's interest transfers in this manner:
 - ◇ there are no probate fees
 - ◇ the transfer cannot be defeated by other members of the deceased's family
 - ◇ the interest in the property is not available to the creditors of the estate

6. Will Planning

Your will is a legally enforceable document which takes effect on your death. It describes your wishes regarding the property in your estate and deals with a number of other matters. Provisions in your will that might enable you to complete your farm transfer include the following:

"Purchase option"

If you have concluded that one or more of your children should have the ability to acquire your farm, but you have not yet completed the transaction, you could

consider putting an “emergency plan” in your will so that your child will have an option to complete the purchase from your estate if you were to die suddenly. Your will would state how the price and the interest rate, if any, is to be determined and the basis upon which it would be paid.

"Trusts"

You could request that a trust be created through your will if any portion of your estate passes to a beneficiary who is a minor. The trustees you name will look after the assets in the trust until the beneficiary becomes an adult. You can also arrange for property that would be inherited by your spouse to be transferred to a trust for that person. This removes the possibility of your children being disinherited if your spouse survives you and remarries.

"Forgiveness of debt"

You might decide to sell certain farm assets to a child during your lifetime at an amount which is higher than the amount you want to receive. You might do this if you were concerned about the child’s marriage and didn’t want to give your child a significant equity in the farm assets that could be claimed by his or her spouse. In this situation, you could bequeath the excess purchase price back to the child in your will and there would be no adverse tax consequences.

"Hotch-Pot clause"

This is a provision that instructs your executor to take into account, in dividing the residue of your estate, certain gifts made to your children in your lifetime.

7. Life Insurance

You might use life insurance to create a pool of non-farm assets for your non-farm children. Insurance might also be purchased by the family on the life of the farm child (with the parents as the beneficiaries) as a means of securing the amount that is owed to the parents by the farm child as a result of his or her purchase of the farm.

Naming beneficiaries or alternates in the life insurance policy itself (rather than having the proceeds paid to the owner’s estate and dealt with by the will) can reduce probate costs.

Some Examples of How the Tools Might be Used

Example #1 - A Sole Proprietor

Situation

A dairy farmer wants to sell the farm to his son but is uncomfortable transferring all of his assets at this time.

Possible Solution

The farmer might sell his machinery, livestock and quota to his son under an agreement for sale and enter into a lease of his land and buildings. The machinery would be sold at its undepreciated capital cost (so as to avoid tax), and the livestock would be sold at fair market value. The quota might be sold at a value that results in a total package which seems reasonable to the parents and financially manageable to the child.

The farmer should be able to use his CGD to offset the taxable capital gain on the sale of quota (assuming, of course, the CGD had not already been used). He would still, however, be taxed on the recaptured quota write-offs. The farmer might defer the tax on the livestock by arranging for there to be a separate note evidencing the unpaid sales price for this asset which is paid only after the remainder of the sale price has been paid in full. The farm child might be given an option to purchase the land and buildings in say five years and, if so, this option might be incorporated in the parent's wills.

Example #2 - A Sole Proprietor

Situation

A farmer wishes to begin involving his son in the management of the farm but does not want to transfer any value at this time.

Possible Solutions

The farmer and his child might enter into a partnership arrangement under which the child shares in the future profits of the farm. All the assets could be transferred to the partnership in a manner that would:

- ◆ ensure the existing value accrues to the farmer
- ◆ defer recapture on the machinery and buildings
- ◆ defer any income on the value of livestock
- ◆ crystallize the accrued gain on land (and quota perhaps) so as to lock in the parent's CGD

A partnership agreement would be prepared that would determine the extent to which the child would share in any future increases in value in the partnership's assets.

The farmer could vary the above by retaining ownership of some or all of the assets outside of the partnership.

As an alternative to a partnership, the farmer might consider a joint venture arrangement under which he contributes the use of all or part of his assets to a new venture with his son. They would decide the basis on which the revenues would be shared between them, as well as the expenses that each would be responsible for.

As a final step, the farmer might alter his will so that if his son does not buy the farm assets during the farmer's lifetime, he has, under certain conditions, an opportunity to purchase them from the farmer's estate.

Example #3 - A Partnership

Situation

The parents already have a partnership and want to sell the farm to their child so that they can use the CGD.

Possible Solutions

The parents could sell their partnership interests directly to the child and offset some or all of their taxable capital gains by claiming the CGD. They would structure the transaction, as much as possible, to avoid the refundable minimum tax.

Alternatively, if the sale price to the child would produce a gain that is far in excess of the available CGD or, if the parents wanted to continue to exercise some control, they might consider the following:

- ◆ incorporating a company, in which the farm child owns all of the growth shares and the parents own a class of non-participating, voting, fixed value shares through which they can control the company
- ◆ selling their partnership interests to this company (or arranging for the partnership to sell its assets) in exchange for a combination of debt and non-voting, fixed value shares and arranging the transaction so that:
 - a. for tax purposes, the parents realize a taxable capital gain equal to their available CGD and, where individual assets are sold, they avoid realizing other income
 - b. they receive debt equal to the tax-free portion of the sale price
 - c. they receive non-voting fixed value shares equal to the balance of the sale price (eg. the tax deferred gain)
- ◆ arranging for the debt owed to the parents to be gradually paid out over their lifetime
- ◆ bequeathing the non-voting, fixed-value shares to all of the children on the death of the survivor of the parents or, gifting or bequeathing the voting, fixed value shares to the farm child

Where Do You Go From Here?

Now that you have completed Part I of the process you need to decide how to get started on Part II. There are a number of options available:

- ✓ review more in-depth publications from the Ministry
- ✓ attend an estate planning seminar
- ✓ meet with provincial Ministry staff
- ✓ obtain assistance from your
 - ◆ lawyer
 - ◆ accountant
 - ◆ insurance agent
 - ◆ financial planner

Provincial Ministry staff will be able to review your goals and objectives and offer some preliminary advice on the options that seem to be available to you.

The assistance your accountant can provide will depend on his or her experience and qualifications. Some have a great deal of expertise in this area and will be able to oversee the entire process as well as provide the detailed income tax information you will need. Others will have much more limited skills and should be prepared to refer you to an accountant who has greater experience.

Your lawyer will, of course, become important when the final plan begins to take shape and you need to consider the form of the agreement, your security, the updating of your wills and other similar matters.

If you have carried the process to this point you should keep the momentum going. You've successfully dealt with the difficult issues in Part I. However, if the discussions stall for any length of time you may find that you have to go back over the same ground once again..

Appendix A - Collecting the Data

What is the Estimated Value of Your Farm?

Your Assets	\$	
Land ¹		_____
Farm buildings ¹		_____
Farm residences ¹		_____
Machinery and equipment ²		_____
Livestock ³		_____
Quotas ³		_____
Inventories ³		_____
Other		_____
_____		_____
_____		_____
Your Total Farm Assets	\$	_____ (A)
Your Debts		
Mortgages		_____
Bank Loans		_____
Bank Overdraft		_____
Finance Contracts		_____
Future Tax Liability ⁴		_____
Other		_____
_____		_____
_____		_____
Your Total Farm Debts	\$	_____ (B)
Value of your Farm	\$	_____ (A) - (B)

Notes:

1. Estimate the value of these assets based on recent appraisals and/or information from other farmers and business contacts. Write down the legal description on Appendix A - page 27.
2. List your machinery and equipment on a separate sheet and estimate its value by talking to your local dealer.
3. Write down the details of your livestock, quotas and inventories on a separate sheet and estimate its value.
4. Do not attempt to calculate at this time but bear in mind there is likely to be a future tax liability which will have to be taken into account in establishing the sale price to your child (or children).

Appendix A - Collecting the Data

What are Your Non-Farm Assets?

Investment Certificates

Financial Institution	Certificate Number	Owner	Amount
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Registered Retirement Savings Plans

Financial Institution	Account Number	Owner	Amount
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Stocks, Bonds, Loans Receivable

Details	Owner	Amount
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Appendix B

What Are Your Income Needs?

Your Expenses	Per Month Now	Per Month in 10 Years¹
	\$	\$
Automobile	_____	_____
Debt payments	_____	_____
Food	_____	_____
Gifts and donations	_____	_____
Insurance	_____	_____
Medical	_____	_____
Property maintenance	_____	_____
Property taxes	_____	_____
Utilities	_____	_____
Vacation	_____	_____
Other ²	_____	_____
_____	_____	_____
Subtotal (A)	_____	_____
Your Non-Farm Income³		
Canada Pension	_____	_____
Investment Income (interest, dividends)	_____	_____
Bank Overdraft	_____	_____
Finance Contracts	_____	_____
Future Tax Liability	_____	_____
Other	_____	_____
_____	_____	_____
Subtotal (B)	_____	_____
Payments you Need From Your Child, Net of Tax⁴		
Total (A) - (B)	_____	_____

Notes:

1. Estimate what your monthly living needs will be immediately after retirement and what they might be in 10-years' time.
2. Make sure there is a "cushion" for unexpected expenditures. Your security and comfort should be your foremost concern.
3. Remember that if the annual rate of inflation is two per cent, your income needs 10 years in the future will be approximately 22 per cent higher than they are today. If the inflation rate is four per cent, your income needs will be approximately 50 per cent higher.
4. The payments you need from your farm child, as calculated above, represent the amount after deducting income tax on all of your income.

Appendix C

What Can the Farm Afford to Pay You?

	\$	IN THE FUTURE			
		Currently	3 years	5 years	10 years
The farm's annual net income		_____	_____	_____	_____
Add: depreciation		_____	_____	_____	_____
Subtotal (A)		_____	_____	_____	_____
Less:					
- annual principal payments on existing debts		_____	_____	_____	_____
- future annual capital expenses		_____	_____	_____	_____
- cushion for other expenses		_____	_____	_____	_____
Subtotal (B)		_____	_____	_____	_____
Cash Flow Available for: Your Needs ¹ , and Taxes Payable on Farm Profits ^{2,3}					
Total (A) - (B)		_____	_____	_____	_____

Notes:

- Review the financial statements for your last fiscal year and:
 - adjust for any unusual incomes or expenses
 - in a proprietorship, use the income after deducting the salary paid to the child who is taking over the farm
 - in a partnership, start with the income that was allocated to you and ignore the profits allocated to the child who is taking over the farm in a company, start with the income after deducting the salary to the child who is taking over the farm but before deducting the company's tax and the salary to you
 - in the columns for future years, take into account the increased profits that will arise as a result of the gradual repayment of existing debt and, where applicable, the reduced principal repayments on the existing debt
- In situations where the child who is to take over the farm is not currently being supported by the farm, a deduction will have to be made for the salary, share of profits etc. that will be required to meet the child's living costs and taxes. In these situations you might also want to take into account the child's off-farm income.
- At this stage, it's probably not worthwhile attempting to estimate the future tax on the farm profits or the future tax that will be paid by you. Much will depend on how the transaction is structured. Leave this until later.