

Chapter 2:

Transition Overview

How are transition planning and estate planning different?

There is often confusion between transition planning and estate planning. Though they are distinct planning topics, they complement each other. Both are key in the successful transition of farm business ownership and management from one set of hands to another (usually from one generation to the next).

Estate planning is the process of planning how your estate will be managed following your death. Specifically, estate planning includes organizing wills and legal documents, tax management strategies, estate distribution, contingencies, and other financial matters including investment, savings and insurance. If you do not intend to pass on the management of your farm business to a family member or other successor at or before your death, you likely only need an estate plan.

Transition planning is the process of planning a smooth shift in the management of your farm business, usually when one or more members of a younger generation take over a farm business from older family members. A transition plan requires a complementary estate plan.

What does a transition plan look like?

A transition plan helps guide decisions around ownership, leadership, business structure, tax strategy and contingency plans. To be successful, it needs to be a 'living document' that is updated, revised and referred to on an ongoing basis before and throughout the actual transition process.

There are several steps to developing a plan. Depending on the needs and size of the business and the needs and priorities of everyone involved in the transition, working through these steps can take from several months to several years to complete.

Once your transition plan is complete and the actual transition starts to occur, your transition plan will need to be revised frequently to align with the changing status of the farm business and family circumstances. Doing so will help create a clear, detailed plan that will support a successful transition.

What is the transition planning process?

The transition planning process is made up of three phases:

Phase 1: Readiness Assessment

Transition planning requires a significant investment of time, effort, money and emotional energy. Your farm business may not be in a position to handle the level of investment required. It is far better to identify gaps in your readiness early so you can make adjustments **before** beginning to work through the process. The Readiness Assessment phase of the planning process will help you determine whether your farm business is ready to begin transition planning.

Phase 2: Plan Development

The Plan Development phase is the 'meat and potatoes' of the planning process. This Guide breaks the Plan Development phase into a series of topics that together will form your transition plan.

Phase 3: Plan Implementation

The Plan Implementation phase of the planning process is the culmination of planning and the rollout of your farm business' ownership and management transition. While developing a transition plan can follow a standard process, the implementation phase of transition is unique to each farm business.

What are the approaches to transition planning?

Following your initial planning meeting, select one of the following five planning approaches that best suits your business and the priorities and needs of everyone involved in the transition.

Option 1 – Comprehensive Approach

The Comprehensive Approach is the most detailed and all-encompassing approach to transition planning. As such, it sets the stage for the smoothest and most pre-planned transition possible. Most farm businesses require a year or more to work through all of the topics outlined in this approach.

Option 2 – Condensed Approach

The Condensed Approach is limited to only the absolutely necessary components of transition planning. Because it does not include as many planning details as the Comprehensive Approach, the resulting transition may be somewhat bumpier. Farm businesses following this approach may be able to work through the necessary topics in six months or less.

Option 3 – Estate Planning Approach

The Estate Planning Approach is appropriate when no one is identified as successor to the farm business (i.e.: the next generation does not want to take over the family farm). In cases where the farm business will not transition to new managers, estate planning is the key priority. Farm businesses following the Estate Planning Approach may be able to work through the necessary topics in six months or less.

Option 4 – Ownership Transfer and Tax Strategy Approach

The Ownership Transfer and Tax Strategy Approach requires that everyone involved in transition planning enters the process with a strong understanding of all available transfer options and the same expectations of how the farm business will move through transition. Anyone considering using this approach must have a very competent understanding of and ability to apply the most appropriate and advantageous tax strategies possible. A transition plan created using this approach will only be effective if participants truly agree on the transition planning process and hold the necessary ownership transfer and tax strategy knowledge. Farm businesses following the Ownership Transfer and Tax Strategy Approach may be able to work through the necessary topics in six months or less.

Option 5 – User-Defined Approach

Some farm businesses may find that none of the approaches outlined above meet their needs. The User-Defined Approach allows a farm business to tailor the transition planning topics to meet its specific needs.

To make it easier to navigate and record your progress through a chosen planning approach, each approach is available as a table in the Appendix section of this Guide.

From: Chapter 2, Phase 1: Background and Getting Started
 Transition Plan - Comprehensive Approach

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
	Initial Meeting				
Readiness Assessment					
	Goals				
	<i>Outstanding Tasks:</i>				
	Individual Values				
	<i>Outstanding Tasks:</i>				
	Family Values				
	<i>Outstanding Tasks:</i>				
	Family First / Business First				
	<i>Outstanding Tasks:</i>				
	Retiring Generation				
	<i>Outstanding Tasks:</i>				
	Succeeding Generation				
	<i>Outstanding Tasks:</i>				
	Financial Performance				
	<i>Outstanding Tasks:</i>				
	Management Assessment				
	<i>Outstanding Tasks:</i>				
	Personalities				
	<i>Outstanding Tasks:</i>				
	Historical Business				
	<i>Outstanding Tasks:</i>				

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
	Readiness Assessment Review Meeting				
	<i>Outstanding Tasks:</i>				
	Decision Time				
	<i>Outstanding Tasks:</i>				
	Statement of Intent				
	<i>Outstanding Tasks:</i>				
Plan Development					
	Foundation				
		Challenges in Transition Planning			
		Guiding Principles			
		Conflict Management			
		Resource Team Identification			
		Advisor Information Report			
	<i>Outstanding Tasks:</i>				
	Strategic Direction				
		Vision			
		Situational Analysis			
		Risk Assessment			
		Critical Issues			
		Critical Issue Action Plans			
		Financial Targets			
	<i>Outstanding Tasks:</i>				

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
	Strategic Direction Review Meeting				
	Transition Options				
		Successor Assessment			
		Ownership Options			
		Business Structure			
		Financial Performance – Transition Scenario			
	<i>Outstanding Tasks:</i>				
	Preliminary Advisor Review				
	Estate Plan Elements				
		Estate Distribution			
		Wills, Power of Attorney, Executor			
		Insurance			
	<i>Outstanding Tasks:</i>				
	Human Resources				
		Management Structure			
		Management Activities			
		Job Descriptions			
		Compensation			
		Training and Skill Set Development			
		Roles, Responsibilities and Authority			

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
Plan Implementation	<i>Outstanding Tasks:</i>				
	Agreements				
		Unanimous Shareholder Agreement			
		Business Agreements			
	<i>Outstanding Tasks:</i>				
	Deal Breaker Issues				
	<i>Outstanding Tasks:</i>				
	Transition Plan Review Meeting				
	Accountant Review				
	Lawyer Review				
	<i>Outstanding Tasks:</i>				
	Final Plan Adjustments				
	Accountant / Lawyer Sign-off				
	<i>Outstanding tasks:</i>				
	Final Review Meeting				

From: **Chapter 2**, Phase 1: Background and Getting Started

Transition Plan - Condensed Approach

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
	Initial Meeting				
Readiness Assessment					
	Goals				
	<i>Outstanding Tasks:</i>				
	Retiring Generation				
	<i>Outstanding Tasks:</i>				
	Succeeding Generation				
	<i>Outstanding Tasks:</i>				
	Financial Performance				
	<i>Outstanding Tasks:</i>				
	Management Assessment				
	<i>Outstanding Tasks:</i>				
	Statement of Intent				
	<i>Outstanding Tasks:</i>				
Plan Development					
	Foundation				
		Guiding Principles			
		Resource Team Identification			
	<i>Outstanding Tasks:</i>				
	Strategic Direction				

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
		Situational Analysis			
		Critical Issues			
		Financial Targets			
<i>Outstanding Tasks</i>					
	Transition Options				
		Successor Assessment			
		Ownership Options			
		Business Structure			
		Financial Performance – Transition Scenario			
<i>Outstanding Tasks:</i>					
	Preliminary Advisor Review				
	Estate Plan Elements				
		Estate Distribution			
		Wills, Power of Attorney, Executor			
		Insurance			
<i>Outstanding Tasks:</i>					
	Accountant Review				
	Lawyer Review				
<i>Outstanding Tasks:</i>					
	Final Plan Adjustments				
	Accountant / Lawyer Sign-off				
<i>Outstanding Tasks:</i>					
Plan Implementation					

From: Chapter 2, Phase 1: Background and Getting Started

Transition Plan - Estate Planning Approach

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
	Initial Meeting				
Readiness Assessment					
	Retiring Generation				
	<i>Outstanding Tasks:</i>				
Plan Development					
	Transition Options				
		Succeeding Generation			
		Ownership Options			
		Business Structure			
		Financial Performance – Transition Scenario			
	<i>Outstanding Tasks:</i>				
	Preliminary Advisor Review				
	Estate Plan Elements				
		Estate Distribution			
		Wills, Power of Attorney, Executor			
		Insurance			
	<i>Outstanding Tasks:</i>				
	Accountant Review				
	Lawyer Review				
	<i>Outstanding Tasks:</i>				
	Final Plan Adjustments				
	Accountant / Lawyer Sign-off				
	<i>Outstanding Tasks:</i>				
Plan Implementation					

From: Chapter 2, Phase 1: Background and Getting Started

Transition Plan - Ownership and Tax Strategy Approach

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
	Initial Meeting				
Readiness Assessment					
	Retiring Generation				
	<i>Outstanding Tasks</i>				
	Financial Performance				
	<i>Outstanding Tasks</i>				
Plan Development					
	Transition Options				
		Ownership Options			
		Business Structure			
	<i>Outstanding Tasks</i>				
	Preliminary Advisor Review				
	Estate Plan Elements				
		Estate Distribution			
		Wills, Power of Attorney, Executor			
		Insurance			
	<i>Outstanding Tasks</i>				
	Agreements				
		Unanimous Shareholder Agreement			
		Business Agreements			
	<i>Outstanding Tasks</i>				

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
	Accountant Review				
	Lawyer Review				
	<i>Outstanding Tasks</i>				
	Final Plan Adjustments				
	Accountant/Lawyer Sign off				
	<i>Outstanding Tasks</i>				
Plan Implementation					

From: Chapter 2 (Phase 1: Background and Getting Started)

Transition Plan - User-Defined Approach

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
<i>Outstanding Tasks</i>					
<i>Outstanding Tasks</i>					
<i>Outstanding Tasks</i>					
<i>Outstanding Tasks</i>					
<i>Outstanding Tasks</i>					
<i>Outstanding Tasks</i>					
<i>Outstanding Tasks</i>					
<i>Outstanding Tasks</i>					