Success or Failure? Succession Planning for the Family Farm

by: Todd W. Hoppe

Picture two families who intend to transfer their family farms to the next generation.

**SITUATION 1 – A GREAT SUCCESS**

The first family successfully transitions management responsibility for a 220-cow dairy farm by transferring the farming operation to a limited liability company (“LLC”) and selling the LLC to their on-farm son – age 30. Dad agrees to work for another 10 years. Savings from his employment and proceeds from the sale will fund Mom and Dad’s retirement. Mom and Dad anticipate that on their death, they will have assets remaining to provide an inheritance to both their on-farm son and another son – currently age 27, who works off the farm. By all measures, this is a great succession planning success.

**SITUATION 2 – A FAILURE**

The second family owns and farms a large cash crop farm. Dad is 68, has always been an iron-fisted manager. Their oldest son – age 39, has worked on the farm for 20 years, but also owns other land on his own. Several other children have left the farm. In 2001, Dad promised the on-farm son “5% of the farm” for each year he worked. They briefly discussed this arrangement a few times since, but never implemented a written plan. Dad never formally transferred farm assets to his son. Last year, Dad announced his retirement. The on-farm son is concerned that his lack of formal ownership in the farm is a risk to his family’s security. After several heated arguments, the on-farm son quits. He concentrates on his own farming operation. Dad is left without his principal farm manager, unable to retire, and with a damaged relationship with his son. By all measures, this is a succession planning failure.

What factors contributed to the first family’s great success and the second family’s great failure? A timely and effective succession plan.

**What is Succession Planning?**

Succession planning is the process of formally transitioning management and ownership of an agricultural business from one generation to the next. There is no single plan that every family or every business should use. Some plans involve an outright sale of the family farm to the younger generation (or to a third party). Other plans rely primarily on gifting or on life insurance. Some simply involve the formation of business structures that will help make a transition possible in the future. Others involve expanding a farming operation to help support more families, or dividing a large operation into discrete parts to support different families.

**Why is it Important?**

Succession planning is important because it permits a farming family to transfer management and ownership of their business how they want. It also permits the family to address legal, tax, and family relationship issues in advance, rather than being forced to react to those issues after the death of a member of the older generation.

continued on page 2 | Succession Planning
Succession Planning | continued from page 1

When To Start?

It is never too early! Increasingly, members of older generations wish to retire at earlier ages, perhaps to pursue other business opportunities, or to just enjoy living without the stress of work on the farm. Many of the younger members of farm families are unwilling to wait until their parents’ deaths to take an ownership interest in the farm and prefer to have the security of ownership earlier in life. An effective plan often takes many years to fully implement, and may change as the family and the farm grow and change. A well-designed plan can accommodate this flexibility. The earlier you start, the easier it is to remain flexible.

What Does a Good Succession Plan Cover?

A comprehensive succession plan addresses many different issues, such as:

- Relationships among family members, for example, whether members of the younger generation can work effectively together for the foreseeable future, and whether on-farm and off-farm children should be treated equally, or simply “fairly.”

- Legal matters relating to the ownership and transfer of assets.

- Financial matters, such as the income needs of the older generation, and the financial capacity of the younger generation.

- Federal tax matters, such as the impact of any income, gift tax, estate tax, and generation-skipping transfer taxes. (In the next Foster Swift Agricultural Update, we will discuss opportunities and risks for family farms under the current estate tax law, which is scheduled to expire in 2012.)

- Issues related to income-tax basis in family assets. Many family farms that have been informally transferred in the manner described in Situation 2, above, have tremendously complex tax issues.

- State tax issues, including matters related to PA 116, Michigan real property transfer tax, and real property uncapping.

- Business entity selection and formation.

- Medicaid issues for members of older generations.

The comprehensive plan includes several parts, including effective estate plans for the family members involved, comprehensive business organizational documents (e.g., properly-formed corporations or LLCs, with “buy-sell” provisions that address the transfer of ownership in the business in the future), and purchase and sale agreements.

Who Should Be Involved?

A comprehensive succession plan requires the participation of several parties, such as the family members (often including both on-farm and off-farm family members), professional advisors, such as the family’s attorney, accountant, and financial and/or business advisor. In some situations, a single group of advisors can effectively represent the entire family. In others, separate representation of the parties will be helpful, and facilitate a smoother transition. Select advisors with experience in agriculture and succession planning.

What Do I Need To Do?

While there is no right plan for all families, every farming family should take a series of steps to develop a comprehensive plan:

- **Talk to each other.** The first step of any effective succession plan is for family members to communicate and get the ball rolling. Their goal should be to identify all parties to the plan (which should include both on-farm and off-farm family members), and their interests, goals, and concerns.

- **Gather information.** Once you gather your information, schedule a meeting with your team of advisors to begin the planning process. The objective will be to identify the important relationships, goals, and challenges.

- **Develop a plan.** This step involves developing an outline for the succession plan, which the family and advisors can critically evaluate.

- **Implement.** After the plan has been vetted by the family and advisors, it must be implemented. This may include the formation of business entities, the purchase and sale of business assets, gifting, and drafting estate planning documents.
Succession Planning | continued from page 2

Revisit the plan. Families should revisit their succession plan periodically. A good rule of thumb is every five years, or when major changes occur, such as a death, or a proposed change in ownership or management of the farm business.

Several Foster Swift attorneys have significant experience in succession planning and addressing the unique circumstances presented by agricultural businesses and other family businesses. We would be pleased to assist you in the succession planning process. To learn more about how we can assist with your succession plan, please contact Todd W. Hoppe (616-726-2246), Ryan Lamb (616-796-2503), or David VanderHaagen (517.371.8102).

I-9 Compliance is a “Hot” Area - How to Avoid Getting Burned

by: Ryan E. Lamb & Amanda K. Garcia-Williams

Since 1986 the U.S. has placed upon employers the burden of acting as gate-keepers in the enforcement of the immigration laws. At the same time, employers must be very careful not to discriminate against authorized employees or candidates for employment based on citizenship or national origin. The result is a very fine line that employers are required to walk, with steep pitfalls (business disruption, steep fines, negative publicity, discrimination lawsuits, and criminal penalties) awaiting any missteps.

In the last few years, immigration reforms and increased enforcement have been the topics of extensive debate. While our politicians have not been able to agree upon any major new policies, one proposition which seems to meet little objection is the idea that employers should be subjected to greater scrutiny and enforcement, increasing the burden of their role as frontline evaluators of workforce authorization. Indeed, the last few years have seen significant increases in workforce audits and raids by U.S. Immigration and Customs Enforcement (“ICE”) at all levels. In fact, the Obama Administration has made employers the center of its enforcement strategy in addressing undocumented workers and illegal immigration. You have probably read reports of a few of the more prominent raids or enforcement actions, which have made national news.

An I-9 audit can be triggered for a number of reasons, including random samples and reporting by disgruntled employees (or ex-employees). Certain business sectors, for example food production, are especially susceptible to I-9 audits, and "silent raids" by ICE. In the event of an audit, your company will need to establish its I-9 compliance with ICE. Without a proactive approach, such responses are likely to be reactive and defensive. This typically leads to an internal emergency in responding expeditiously, resulting in a harried response, lost productivity, increased attorney’s fees, worker replacement difficulties, and possibly fines or criminal charges.

Therefore, while proper I-9 compliance has always been important, it has never been more essential. It is not enough for employers to simply fill out the I-9 form to the best of their ability according to the basic form instructions and throw them in a file. The risks are simply too high to maintain a lackadaisical approach to I-9 compliance, if that is your current posture. Proper I-9 compliance requires due care and proactive planning. Every employer should have a formal internal I-9 Compliance Policy detailing the employer’s exact policies and procedures for properly completing, verifying and retaining I-9 and employment authorization documentation, for assigning supervisory responsibility within the company for these duties, and for self-audits or other periodic internal monitoring efforts to insure compliance. In addition, the employer’s Employee Handbook should contain a section explaining to the employee the employer’s and the employee’s respective obligations with respect to Form I-9.

With all of the enforcement activity, publicity, and risks, especially to agricultural employers, it is time to get proactive on this issue - please contact one of the experienced immigration or employment attorneys at Foster Swift to discuss a comprehensive approach.

IN THE NEWS

MDARD TO HOST SEMINAR FOR FOOD COMPANIES

Mark your calendar for the “Prepare for Export Success” seminar hosted by the Michigan Department of Agriculture & Rural Development and the Food Export Association of the Midwest. According to the MDARD website, the seminar topics will include "understanding how to follow-up with trade leads, creating a competitive export quotation, various payment methods in international trade, and mitigating the risk and financing of export sales.” The seminar will take place at Michigan State University’s Kellogg Hotel and Conference Center in East Lansing on August 9. Registration cost: $50. Register by July 26. For more information please visit:

http://www.michigan.gov/mdard/0,1607,7-125-1572_28248-258567--,00.html
http://www.michigan.gov/mdard/0,1607,7-125-1568_2387_3784---,00.html
Managing Risk in Contracts
by: Liza C. Moore

Entering into contracts is an important part of every agribusiness. No one enters into a contract expecting it to go sour but sometimes they do: the other party does not pay, or the goods purchased were not as expected, or the services provided do not measure up. While it is not possible at the time of contracting to anticipate and avoid every potential risk, strategies exist to help minimize exposure and avoid costs down the road. The list below does not cover every situation, but emphasizes the importance of avoiding costly surprises through proper investigation and good understanding.

Investigate risks before contracting. Be sure that you know why you are entering into the contract and what you expect to gain from the contract. In this volatile economic climate, it is more important than ever to carefully evaluate whether changed circumstances or increased input costs in the future could affect the abilities of the parties to satisfy the agreement. Be comfortable that you are getting a “good deal” by understanding the market.

Know who you are contracting with. Are you doing business with a corporation, limited liability company, partnership, or individual? Are they a Michigan business, or could litigation end up out of state? What assets does that entity have, in case you need to collect on a debt later? Is the individual or business creditworthy? Have they been through bankruptcy? Answering these questions will help ensure you understand whether the person has the money to pay, and whether you would be able to collect in the event of a breach.

Put it in writing. People may forget or misconstrue the terms of an oral contract. Plus some contracts must be in writing to be legally enforceable and avoid the statute of frauds. Put the interest rate (not over the usury limit) or time price differential in writing.

Be specific. Ensure that the contract contains all the essential terms. For example, identify the goods that are being purchased, the quantity and quality of the goods, the price and time of payment, the time and method of delivery. Detail any obligations of a party to be insured. Be sure that all parties agree on the terms.

Get advice. Not sure whether you have covered all of the essential terms? Confused by legalese? Remember that it is better (and probably much cheaper) to get help understanding the terms of the contract before you sign it than to wait until the contract has been breached, or you find yourself in a lawsuit. Attorneys can help you ensure you have a perfected security interest, draft contracts to fit your needs, and explain what contract language means.

Take action if the contract is breached. If the goods you receive do not conform to the contract, give notice. Follow-up if payments are not made when due. Do not sit on your rights, as statutes of limitations or other legal requirements could affect your abilities if you wait too long. If you need to enforce a contract, talk to an attorney. Attorneys can help you efficiently and effectively collect on debts.

GETTING PAID: DEBT COLLECTION

Even if you fully investigate and get as much information as possible before contracting, sometimes you still find yourself needing to collect debt from the other party. Attorneys can help you effectively and efficiently collect debts. Your attorney will need all of the information you have about the transaction, the debt, and the debtor, which will help your attorney determine the best collection strategy. Depending on the type of debt and the type of debtor, different laws may govern. For instance, the Fair Debt Collection Practices Act applies to consumer debts pertaining to personal, family, and household purposes and imposes obligations on collection efforts.

Michigan collection statutes and the Michigan Consumer Protection Act also affect collection efforts. Bankruptcy is another issue that often affects the ability to collect. Your attorney may file suit in court to obtain a judgment against the debtor. Once the judgment is obtained, the attorney will still need to work to collect on the debt and may pursue garnishment or other proceedings. Usury laws and the laws governing time price differentials affect the rate of interest that may be applied. Foster Swift attorneys and paralegals have extensive experience in debt collection and bankruptcy matters and can help you get paid.
Insurance Disputes Are Avoidable

Part One of a Series

by: April L. Neihsl

As a producer of agricultural products, you wear many hats for your business: President. Treasurer. Mechanic. Insurance Agent? With the complexity of policies and coverages available today, and with your many daily tasks, the age-old advice to “read your policy” seems inadequate.

In the coming months, our newsletter will address issues regarding liability insurance, including some issues that we have encountered in our practice. Our goal is to help you better understand your coverage, start a meaningful conversation with your insurance agent, and avoid disputes. This newsletter begins with a brief introduction.

In many cases, disputes between insurance companies and the businesses they insure can be avoided. Before problems arise, it helps to understand your coverage, your needs, and any obligations your policies impose on you. Consider discussing these with your agent:

The application for insurance. Did your insurance agent fill out the application for you while he or she was in a rush? Are you certain that questions on the application were answered accurately? Your insurer, if it believes you misrepresented material information on the application you signed, could cancel your policy, refuse to renew it, or deny any claim you may bring.

Your property and activities. Your insurance needs are directly impacted by the nature of your property, business, and activities. A basic farm insurance policy, for example, might not protect you for such things as business pursuits, injuries to your employees, or damage to someone else’s property kept in your care, custody, or control. Your agent can discuss with you whether you need to buy additional insurance coverages to fill the gaps based on your needs.

Endorsements that expand or reduce coverage. “Endorsements” are clauses added to your policy that, in some way, alter your coverage, usually by adding coverage or restricting coverage. For example, an endorsement may allow you to name “additional insureds” under your policy (such as a co-owner, lessor, or subcontractor). On the other hand, some endorsements add exclusions that restrict or cut coverage for certain losses.

Changes in your business activities. If your business activities change, contact your agent promptly. For example, maybe you are considering opening a segment of your crop farm to the public for “agri-tourism” (e.g., pick-your-own, corn mazes, petting farms, hayrides), or maybe you plan to sell produce on-site directly to the public. If so, your existing policy might not protect you for these activities. Contact your agent to learn whether you need extra coverages before you start your new venture.

Obligations in the event of a claim. Your policy explains how you must respond if a claim is possible or if a claim has already been brought against you, such as notice to and cooperation with the insurer. Follow these and other obligations carefully. Failure to satisfy your obligations could, in some cases, lead to disputes if the insurer denies coverage.

Legal disputes involving insurance can be time-consuming and costly. It makes good sense to understand your policies, your needs, and your obligations. Not only are you protecting your family and your business but, at the very least, you have peace of mind.

If you have questions regarding your insurance, please contact April Neihsl at 248-785-4732.

IN THE NEWS

NEW DIVISION LEADERSHIP IN MICHIGAN DEPARTMENT OF AGRICULTURE & RURAL DEVELOPMENT

Dr. James Averill of Webberville, MI - Animal Industry Division Director
Kevin Besey of Leslie, MI - Food and Dairy Division Director
Bonnie Moon of Grand Ledge, MI - Laboratory Division Director
Gina Alessandri of Leslie, MI - Pesticide and Plant Pest Management Director

MDARD Director Keith Creagh said that “These four individuals bring with them a tremendous amount of industry understanding and expertise which is vital to help us hit the ground running as we work to increase opportunities for the state’s agricultural-based businesses.” “Their combined institutional knowledge, established industry relationships, and enthusiasm for the agri-food sector will help us maintain our reputation for being customer centered.” For more information, please visit:

http://www.michigan.gov/mda/rd/0,1607,7-125-1572_28248-258725--,00.html
Condemnation Law Basics
by: Brian J. Renaud

“Condemnation” allows Michigan governmental authorities to acquire private property, usually real estate, for “public purposes” such as the construction of roads, sewers, drains and transmission lines, without owner consent. Condemning authorities must observe the strict requirements and procedures set forth in Michigan’s “Uniform Condemnation Procedures Act” (Act) and its Constitution. The authority must pay to the owner “just compensation” for the acquired property.

WHAT TO ACQUIRE, WHAT TO PAY?

The authority must first determine that the acquisition is “necessary” to accomplish the public purpose. This is usually based on engineering and feasibility studies.

The authority must then establish a value for the property, referred to as the “estimated just compensation” or “EJC”. In cases involving a “partial taking” of property, the reduced value of any remaining affected property must also be considered. A certified appraiser’s report usually forms the basis for the EJC.

The authority must thereafter make a “good faith written offer”, or “GFWO”, to purchase the property for an amount not less than that stated in its appraisal. Owners of record, tenants, lien holders and others who claim an interest in the property must receive a GFWO, since the Act considers all of them to be “owners”.

The authority and the owner(s) usually then negotiate price. Owners in such cases are well advised to immediately retain an experienced condemnation lawyer and appraiser to assist them in negotiations and any potential litigation. As discussed below, the owners’ appraiser and expert witness fees and, in some cases, lawyer fees, must be paid by the authority.

THE CONDEMNATION LAWSUIT

If the parties cannot agree on price, the authority may commence a condemnation lawsuit, at the same time depositing the EJC into escrow. If the owner timely and successfully challenges the necessity of the acquisition or of the public project as a whole, the lawsuit will be dismissed. If a challenge is not timely filed or is unsuccessful, the EJC is disbursed to the owner(s), and the lawsuit moves forward on whether additional compensation is owed. The court in such cases usually establishes a “mutual appraisal exchange” date. This serves to prevent a party from “shopping” the other party’s appraisal to an appraiser whose expert opinion might be improperly influenced by it.

WHO PAYS FOR CONDEMNATION LITIGATION?

The authority must pay the owner’s reasonable and necessary appraiser and expert witness fees incurred in defending against the lawsuit. The authority must also pay the owner’s attorney fees incurred in successfully defending against the lawsuit, based on a “success formula” contained in the Act. The Act further provides for the payment to an owner whose “principal residence” has been taken, a sum equal to 125% of its fair market value. Parties may at any time settle a condemnation lawsuit on mutually agreeable terms.

CONCLUSION

Condemnations in Michigan can be complex. Owners are well advised to seek the assistance of experienced condemnation counsel and experts early in the process to achieve an optimal outcome.

IN THE NEWS

SPECIAL LAND USE PERMIT GRANTED FOR LAKE WINDS ENERGY PARK

Consumers Energy announced that the Mason County Planning Commission granted the utility a special land use permit application for its first wind park. Consumers Energy submitted an application for 56 wind turbines for the proposed 100 megawatt Lake Winds Energy Park.

“We appreciate the hard work and dedication of the Mason County Planning Commission and other County personnel in connection with review and approval of our application. While we are still reviewing the terms and conditions of the Planning Commission’s approval, we look forward to building a wind park that benefits Mason County residents, farmers and businesses, and provides economic value and renewable energy to Michigan and our customers,” said Jack Hanson, senior vice president of generation and energy supply for Consumers Energy. For more information, please visit:

http://phx.corporate-ir.net/phoenix.zhtml?c=101338&p=irol-newsArticle_print&ID=1583411&highlight=
Oil and Gas Leases
by: Scott A. Storey

The tumultuous world economic and political climate has had a profound effect on oil and gas exploration activities in Michigan. During the first six months of 2011, the State of Michigan issued 113 permits for new wells. Renewed interest in Trenton wells has generated much activity in Michigan’s Southern Trend over the last three years. Promising Dundee wells have been drilled in Mecosta and Osceola counties. Encana, the Canadian oil company that sparked a leasing boom in northern Michigan last summer, is scheduled to drill a second Collingwood test well in Kalkaska County in mid-July.

All of this activity increases the likelihood that an oil company, interested in drilling for oil and gas, will send a representative or “landman” to approach the landowner with the offer to lease the property for oil and gas development.

The lease offered by the oil company will typically grant the oil company the right to explore for oil and gas in exchange for financial compensation. Some of the important terms of the typical oil and gas lease include:

Cash Bonus. An upfront payment, usually made on a per acre basis. This is a one time payment. However, a second cash bonus may be required to exercise an option to extend a lease.

Primary Term. The duration of the lease if oil and gas are not produced. If a successful well is drilled within the primary term, most leases will continue to run for as long as oil and gas is produced from a well on the premises. Production from an oil and gas well could extend the term of a lease for decades.

Royalty. Additional payments made to the landowner; typically a percentage of the net value realized from the sale of oil and gas.

Disturbance. The typical lease provides compensation for trees, crops, etc. damaged during the construction of a well site.

Pooling. Most leases allow the oil and gas company to join leased acreage with neighboring land to form a larger “drilling unit”. If one well is produced from a pooled unit, royalties will typically be distributed to landowners based on their proportional ownership within the unit.

Plugging. When a well has ceased producing in economic quantities, the oil company is required by the State to plug the well with concrete. The lease can provide for completing the plugging below plow depth and for restoring the property to its pre-lease condition.

Non-Development Lease. Since it is sometimes possible to extract oil and gas from wells located some distance away, some leases provide that the surface location of the well will not be on the leased premises.

Directional Well. Wells can be drilled on an angle so that the surface location will not be directly over the point that the well penetrates a producing formation. It is possible for the surface location of a well to be as far as a mile away from the bottom hole location.

Governing Authority. The spacing, drilling and production from oil and gas wells are regulated by the State. Spacing and drilling are regulated by the Department of Environmental Quality. Production from oil wells is also regulated by the DEQ. Production from gas wells and the pipelines necessary to transport gas to market are regulated by the Public Service Commission.

The terms and conditions of a lease are negotiable, even if the proposed lease is presented in a pre-printed form. The oil and gas lease is a unique and complicated contract. Therefore, it is wise to have a qualified attorney review the proposed lease and assist in negotiating revisions in its terms.

Reimbursement for International Marketing Activities
by: Jean G. Schtokal

Did you know that the Michigan Department of Agriculture (MDA) and the Food Export Association of the Midwest (Food Export-Midwest) offer a 50 percent cost reimbursement on certain pre-approved eligible international marketing and promotional activities for Michigan small to medium sized businesses?

The goal is to promote Michigan brand name food and agricultural products in international markets. Under the Branded Program, eligible Michigan companies can receive reimbursement for $2,500 to $300,000 of expenses for certain eligible activities such as attending international trade shows, translating labels and product inserts, packaging modification, advertising, freight cost for samples, and more. Food and agricultural products that qualify for the program include produce, meat, dairy products, feed grains, pet food, processed foods and other...
agricultural products. To the extent a product has plant or animal based compounds that comprise at least 50% of the content by volume, reimbursement funding might be available. This can include animal and plant based products such as cosmetics and fiber products, for example, that meet the content requirements.

The program is funded through the US Department of Agriculture’s Foreign Agricultural Service (USFAS). The Michigan Department of Agriculture wants to help your company promote its Michigan food and agriculture products in the global market. For more information please call us or see the following links:

**MDA**
http://www.michigan.gov/mda/0,1607,7-125-1572_3628-204918--,00.html

**Food Export-Midwest (contains links for the application process)**
http://www.foodexport.org/

**USFAS**

**USFAS for additional details**
http://www.fas.usda.gov/info/factsheets/MAP.asp

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ENTER TO WIN AN ESTATE PLAN VALUED AT UP TO $2,000!

**STOP BY AND VISIT OUR BOOTH AT THE 2011 MICHIGAN AG EXPO**

Foster Swift Collins & Smith, PC will randomly select one entrant to receive a comprehensive estate plan prepared by our estate and succession planning attorneys. The winner, and his or her spouse, will receive:

- An initial meeting with Foster Swift attorney Todd W. Hoppe to develop your estate plan;
- The preparation of your estate planning documents, including wills, trusts, patient advocate designations, general durable powers of attorney, and if necessary deeds required to transfer Michigan real property to your trust;
- Recording fees and other disbursements of up to $100. The winner will be solely responsible for out of pocket disbursements, including deed recording fees, in excess of $100;
- A signing conference at which you will execute your estate planning documents.

Office conferences will be held in Foster Swift’s Lansing, Grand Rapids, Holland, or Farmington Hills offices. This promotion covers up to $2,000 in legal fees and disbursements. This allowance is generally adequate to cover most estate plans. However, due to the unique nature of each client’s goals, personal situation, and financial situation, additional legal work may be necessary to complete a comprehensive estate plan. In the event additional legal work is necessary to draft your estate plan, you will be notified in advance. Additional authorized legal services (if any) will be billed at Foster Swift’s ordinary hourly rates. All disbursements in excess of $100 will be billed at actual cost.

The winner must be a Michigan resident and must execute a signed engagement letter setting forth the terms of our engagement to provide legal services. Due to ethical rules applicable to legal professionals, the winner must be an individual that Foster Swift is permitted to represent in light of the Michigan Rules of Professional Conduct. In the event of a conflict, Foster Swift will select another winner at random from all entries.