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Extension Extra

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Transferring the Family Farm*

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Family transfer decisions and procedures are often difficult and stressful. What is “fair and equitable” from one person’s perspective can be “unfair and inequitable” from someone else’s perspective. The farm is perhaps the most difficult of all family resources to pass down. After all, it represents both an economic enterprise and a way of living. The challenges can only be addressed if various aspects of the transfer process are carefully considered.

The Generations of Farm Families

Each participant in the transfer process can have very different perceptions. Significant participants in the process include the husband and wife in the senior generation (i.e., the generation of the farm family currently having the responsibility for running the farm), the members of the junior generation (i.e., the generation that will ultimately take over the farm), and the spouses of the junior generation.

The Current Study

As a result of an interest in the family discussions and decision-making about the transfer of the family farm, volunteers were sought to help answer questions about how South Dakota farming families are handling this

issue. Many families have volunteered, and are continuing to volunteer, to help with this project. Interviews have been conducted with males and females from the senior generation, with the junior generation, and with many spouses of the junior generation.

Goals and Principles

Based on the comments of family members, three goals that families generally have for the transfer and five principles that they use to attain those goals were identified.

GOALS

Preservation of the family farm — Family members pursuing this goal feel that every effort should be made to ensure that the farm always stays in the family.

Financial viability of the family farm — A goal identified by some families is to ensure that the family farm remains a viable financial entity.

The farm as a retirement package — For some families, the major goal of the transfer process is to be able to use the financial resources of the farm to provide an income on which the senior generation can live.

It is important to note that some families choose more than one of these goals when they plan the farm transfer. In some cases, the goals can be incompatible. For example, some families in the study discovered that trying to pass down a financially viable farm is incompatible with the use of the farm as a retirement package.

*The material summarized here is from a study of the inheritance of South Dakota farms and ranches. If you are interested in more detail, find the complete study under “rural life perspectives” at <http://sdrurallife.sdstate.edu>

PRINCIPLES

Participants — Families decide which family members should be involved in the selection of goals and procedures for the transfer process. Families typically adopt one of the following formats specifying who should be involved in the process:

- **Senior Generation Format.**

Some families were emphatic that the only people who should be involved were members of the senior generation.

- **Family Format.**

Some families wanted all family members included in the process, but they felt that “in-laws” should not be considered as family members here. This format included as participants in the process the mother, father, and all siblings; it excluded all spouses of the siblings.

- **Inclusive Format.**

Families adopting this format wanted all family members included in the process - the senior generation, all members of the junior generation, and all spouses of the junior generation.

Equality of treatment of members of the junior generation -- Families using this principle tried to treat each member of the junior generation equally. That is, each should get an equal part of the farm operation.

Commitment to the family farm -- For some families, the “right” to inherit a share of the family farm must be earned. In their view, only those who have shown a commitment to the family farm through hard work on the farm have any claim to the farm.

The provision of choice to the junior generation -- Many families specified that the most important principle guiding the transfer of the family farm is the provision of choice; the junior generation should be allowed to choose their own future.

An exclusive right of inheritance coupled with parental caretaking -- Families employing this principle establish an exchange relationship between the senior and junior generation. One child will receive - with very few exceptions - the entire farming operation (land, livestock, and equipment) but must agree to take care of the parents as long as they are alive. His or her siblings receive little or none of the farm, but they have no obligation to take care of the parents.

Successful Family Farm Transfers

Here, “success” means that the specifics of the transfer are “accepted” by all family members. The potential for that success depends to a great extent on communication among family members about goals and principles and with the consistency among the desired goals and the principles.

Possible goals and principles of the families in the study are presented in the chart. Clearly, some of the principles facilitate the accomplishment of certain goals far more than other principles.

For example, note in column two that the principle of “equality” is often incompatible with the three goals families often choose. But in column five, the principle specifying that one child will inherit the farm and be required to support the parents is consistent with all three goals:

- Since one child receives the entire farming operation, the farm is preserved.
- Since that child does not have to buy or even rent the farming operation, it is easier for the farming operation to remain a viable operation.
- Since that child must use some of the income from the farm to support the parents in their retirement, the farm is a retirement package.

Other principles are inconsistent with the accomplishment of certain goals. The principle of equality of treatment poses stiff challenges to the attempt to achieve any of the three goals. It is extremely difficult to provide equal treatment to a number of children (the more children there are, the more difficult the situation) while trying to preserve the farm, or trying to maintain the farm’s financial viability, or trying to use the farm as a retirement package.

What Do These Results Mean to You?

In order to plan for the family farm transfer, families should discuss both the goals for the transfer and the principles they plan to use to attain the goals. A first step could be to use the chart as a way to begin the discussion.

Families can use this chart in two ways. First, they can use it to help specify both the goals and the principles. They can then gain a clearer understanding of how each member views the transfer process.

Goals and Principles of Family Farm Transfers

GOALS	PRINCIPLES				
	Participants	Equality	Commitment	Choice	Inheritance with caretaking
Preservation		Inconsistent			Consistent
Financially Viable		Inconsistent			Consistent
Retirement Package		Inconsistent			Consistent

Second, they can use the chart to critically evaluate the consistency among their goals and principles. Some goals are inconsistent with other goals. Similarly, some goals are inconsistent with certain principles.

Families pursuing inconsistent goals and/or principles can avoid the stress of these inconsistencies by adopting alternative goals and principles. Or, they can begin to develop strategies to help them adjust to the inconsistencies. In any event, the first step in addressing inconsistencies among the goals and principles of family farm transfer is to be aware that they exist.

A critical review of the desired goals and principles

of the transfer can make the decision-making process more open and concrete for all family members, and, consequently, it can help avoid quick, emotionally-laden decisions or reactions. It also can enhance communication because family members have specific manageable issues (e.g., like goals and principles) they can discuss before having to confront broad difficult issues (e.g., “Who gets the family farm/ranch?” or “How is the farm/ranch to be divided up among the children?”).

A critical review can help prevent family conflict and perhaps smooth the transfer of the family farm or ranch from one generation to the next.

