11 STEPS TO AN ORDERLY EXIT

1Deferred taxes

Deferred taxes on the sale of assets is a major consideration. A study conducted by E.L. LaDue, Cornell University, found that deferred taxes can erode 20 to 40 percent of a business' equity and 20 percent of its assets — depending upon its age, financial structure and tax strategies. Computing deferred tax liabilities involves three major steps:

1. Determining the dollar value (basis) of the assets that are subject to taxation.
2. Determining appropriate tax rates.
3. Multiplying the amount in step one by the rate in step two.

The final value of the asset subject to taxes varies with the type of asset and the tax strategy used. It is important to know those tax laws and methods of calculating tax change with time. Individual circumstances may require different strategies.

2Results

The importance of tax planning and liquidation strategies to preserve wealth for the business owner is evident. It may be advantageous to liquidate the business over a period of years to reduce tax in any given year.

If equity and cash flow permit, some producers include gifts to family members or make contributions to tax-deferred retirement programs. An accountant, lender and knowledgeable attorney should be involved in the liquidation of any business to avoid "tax traps" and to facilitate an orderly procedure of liquidation.

3Source of alternative employment

A major consideration to an orderly exit from farming may be to examine alternate employment. Begin by examining availability of employment, earnings and general overall stability of employment.

In many rural areas, available employment is limited, and the cost of driving to an area with more opportunities may be prohibitive. Look at your job skills, which may require the use of a job consultant to assess job skills, aptitude and intent.

The final consideration should be earnings. While many jobs are available, compensation packages may be only slightly above minimum wage. Often, they do not include fringe benefits such as health insurance. Or they are contractual, so benefits are not included.

4Cost of living

Many businesspeople fail to examine their family's living cost and needs. According to *USA Today*, the average family in the United States requires about $33,000 per year for living expenses. Other studies from Minnesota, Kansas and Cornell universities have shown that this amount may be as high as $38,000 for farm families, once income tax is included. When looking at the cost of living, consider family living expenses included in the business expenses.

5 **Life cycle**

Ask yourself where the individual and family are in terms of needs and goals. The spouse must consider employment opportunities, fringe benefits, stability of employment and earning potential.

Also determine how much income has been used from the spousal employment to maintain the business enterprise. In many cases, future educational needs must be taken into consideration.

6 **Retirement**

Many producers do not consider the retirement implications when selling the business. It is suggested that a business owner complete a Social Security analysis for both the owner and the spouse. This analysis can be done by either contracting the Social Security Administration or completing a form that can be found at most local post offices.

The owner should also realize that the business must have acquired sufficient wealth to generate earnings for retirement. Most producers and their spouses will live an average of 15 to 20 years in retirement.

With an annual living cost of $25,000, this could amount to nearly $500,000 needed in equity to provide a similar standard of living in retirement. Furthermore, the average cost of family living increases 4 to 7 percent annually due to inflation.

7 **Partial liquidation**

When considering liquidating part of the operation and leasing the remaining assets to someone else, assess whether the lease income will be sufficient to cover family living needs and pay any taxes and upkeep associated with the fixed assets. Attempt to attract a leasee who is responsible with the assets and will actually make the lease payments on a timely basis.

In situations where land is left idle, consideration must be given to possible land use agreements and government payment requirements that may have been previously agreed upon.

8 **Notification to creditors**

Before any liquidation, contact all creditors to obtain releases for security agreements and the details of payback requirements. Failure to comply with these agreements is a violation punishable by law.

It is also important to keep the creditors involved in the liquidation because they may know of potential buyers.

9Cost of sale
Frequently, the cost of the sale is overlooked. If an auctioneer or real estate broker is used, the fee is usually based on the percentage of the asset value. Frequently, time is spent preparing the machinery and livestock for the sale.

These costs usually run between 2 and 4 percent of the value of the assets being sold. There is also time to prepare for the sale and the cost of upkeep of the property until the sale. Remember: Idle equipment and structures tend to deteriorate much faster than those in use.

Family living arrangements
When selling real estate, the owner must take into consideration other housing arrangements, which can add to the cost of retiring. If moving to another location, the cost of moving needs to be taken into consideration.

Family goals and emotions
Often it is the owner's lifetime work being liquidated, and it can be an emotional event. In cases like this, solicit the assistance of an outside facilitator to organize the sale and facilitate reasoning among family members.

The facilitator's role may involve helping to determine existing and future goals of both the business and family so that everyone has input and can establish a clear direction for the future.

Adapted from
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