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Editors: Will Snell & Nicole Atherton

Retirement 2022

Author(s): Tarrah Hardin

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Currently, it is a very stressful time to be farming because of conditions that cannot be controlled. With high input and equipment prices, some producers are thinking of exiting in the next few years. In order to do this, they are starting to plan now so they can manage tax liability and protect any equity they have built within their business. When thinking about retirement or exiting, producers need to consider several factors.

Time – What is the time frame for retirement? How old are the producers? How quickly does the producer want to make this happen? These are just a few questions that need to be addressed in order to start properly planning for retirement/exiting. To help minimize tax liability, the plan likely will be to sell assets over a couple of years. Thinking ahead will benefit not only the producer but all the consultants working with the producer to get this done.

Equipment – Most farming operations have several pieces of equipment to dispose of. To help estimate the tax liability for selling equipment, an updated itemized depreciation schedule is needed. After the depreciation schedule has been updated then go item by item as to what the expected sale price would be. Once expected sale prices are known, the producer can determine how they would like to sell the items and when. There are a couple of ways to go about this – one could be to sell all pieces outright and take on the liability all at once. The other option is to enter into a lease-to-own agreement with someone. The second option would allow the producer to spread out income over many years rather than having to claim the sale all in one year. The producer can even do a mixture of the two options in order to help with the liability. Regardless of how the equipment is disposed of, documentation (a signed contract) is needed for all agreements.

Land – The main question with land is, will the land generate income once the farming operation has stopped? If the land is going to be rented, one way to help defer income in the year of retirement is to defer the rental income until after the first of the year. Similar to equipment, land can be sold on contract to help with any capital gain taxes. Although any gains in land improvements will be realized in year one. There are several options when it comes to managing land once the farming operation has stopped, to best explore those options would be to talk to an accountant and a lawyer that handles succession planning.

When it comes to retiring, having a plan to navigate all the possible issues that might come up should be number one on the producer's to do list. Rushing through things could bring on unexpected tax liabilities as well as issues down the road. Having specialized consultants to help with this process will decrease some of those unexpected issues. If you have any questions about retiring from farming, please reach out to your local **Kentucky Farm Business Analysis Specialist**.

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Author(s) Contact Information:

Tarrah Hardin | **KFBM** Area Extension Specialist | **tarrah.hardin@uky.edu**