Transitioning Out of the Business

For some farmers and fishermen, exiting the business may be the best financial and family option. For some, it may be the only option. Transitioning to a new career, business, or to retirement can be an emotional and complex experience. This is particularly true when financial stress is forcing a change or exit from the business. Some producers and their families may be ready for a change or for retirement, but others may be in the process of being forced out of their business for financial reasons. If you are facing a potential transition out of your business, you should discuss your options and goals with family members, creditors, and financial advisors. You might also seek additional assistance from TAA technical assistance providers.

There are different transition issues that need to be addressed depending each individual’s situation, but some general factors should be considered by most producers or fishermen faced with exiting their business. These include future sources of income, family and emotional well-being, tax and credit issues, and retraining and education opportunities for TAA eligible producers and fishermen.

Future Sources of Income

If you are transitioning out of your business, you need a new means to support yourself and your family. Your source of future income will depend significantly on your stage of life. Your stage in life will determine whether you are willing to start over with a new career or business, seek additional education and training, or plan for partial or full retirement.

Different Business or Career

An earlier section of the TAA technical assistance package, Inventory of Resources and Talents, discussed your skills and resources. This same inventory can be very useful in assessing your opportunities to transition to a new business or career. The education and experience that you have obtained will have a significant impact on the alternative sources of employment and income available. The management, technical and people skills obtained in farming or fishing can often be leveraged into valuable assets for other types of employment or in other businesses.

Farmers and fishermen possess a set of entrepreneurial skills that are valuable when starting a new business. But starting a new business is rarely easy. The statement is frequently made that 80 percent of new businesses are gone within five years. Farmers and fishermen may possess the experience and management skills to give them the edge to overcome the odds when starting a new business, but should still seek advice and assistance. Small Business Development Centers (SBDC’s) are located throughout the country and provide help with financial, marketing, production, organization, engineering and technical problems and
feasibility studies. To locate the nearest SBDC, visit http://www.sba.gov/sbdc/ or call 1-800-8-ASK-SBA.

You may be interested in starting a new career as an employee, rather than starting a new business. You probably have numerous relationships with businesses in your area. If you are seeking off-farm employment, your existing relationships are one of the most valuable tools available to assist you in your job search. As the producer of a TAA certified commodity, you also have access to employment counseling services at your state department of labor (http://www.doleta.gov/tradeact/contacts.cfm). Location may also be a major factor in determining how you will seek future income. In many rural areas, job availability is limited, many jobs may not pay enough to maintain your standard of living, or available jobs may not include health insurance benefits. Determining whether you are willing to relocate may be a major issue for you and your family.

Regardless of whether you are considering a new business or a new job, your attitude is critical to success. You have the opportunity to create a new future for yourself. You can take the attitude that your future is in your hands or you can have the attitude that you are a victim of circumstances beyond your control, of imports, overproduction, and lost markets. Your attitude may be the single most important factor in determining the success of your new career or business.

**Retirement**

The average age of agricultural producers in the U.S. is in the upper 50’s. For many producers, retirement may be a viable option when facing the choice of exiting the business or struggling financially to keep it going. If retirement is an option for you, there are a number of questions you should answer before making the decision to retire.

Do you have sufficient financial resources to sustain you through the retirement years? You should project your retirement income and your retirement expenses to determine if you will have adequate income for your retirement. If you aren’t sure how to project your financial needs or how to evaluate income from your investments and capital assets, you should seek the assistance of a financial planner. How will you handle your capital assets? For many producers, the bulk of their wealth is tied up in capital assets such as land, buildings, and equipment. Will you sell the capital assets and invest the proceeds or will you lease out the assets to provide retirement income? Do you know how much social security you will receive if you retire? Do you have the annual statement you receive from Social Security Administration detailing how much you will receive at various retirement ages? You may want to contact your local social security office (http://s3abaca.ssa.gov/pro/fol/fol-home.html) or call 1-800-772-1213 to determine your specific retirement benefits.

Health is a major issue for most senior citizens. Do you want to retire early, while your health is good? If you retire now, will you have adequate health care coverage to cover you until you are eligible for Medicare? Should you wait to retire due to health care affordability?
Supplemental Income and Leasing Assets

You have probably considered supplementing your income with off-farm or non-fishing income. Have you exhausted all the possibilities for supplemental income? There are certainly trade-offs associated with finding a second job. You may not have the time to successfully manage your business. The impact on your quality of life or family life may cause you to decide supplemental income is not worth the cost.

You may want to explore the possibility of terminating your business while retaining control of your business assets. Leasing your land, equipment, or boat to other farmers or fishermen, when combined with an off-farm or non-fishing job, may allow you to support yourself financially. This alternative may allow you to keep the land or boat to which you have emotional ties, while providing sufficient income for your family. Exiting the business while retaining control of the assets is dependent on the amount of debt you have against those assets and your overall financial situation.

Family and Emotional Well-Being

When considering a transition or exit from your business, family concerns are one of the major issues that will impact your decision making. What are the goals of your family? How much emotional impact will leaving the business, possibly changing your way of life, or a potential move have on you and your family? Where will you live; can you stay living on your farm or in your community?

Goals

The previous Goals section of the TAA technical assistance package discussed setting and implementing goals for your business and family. Goals are important when you are considering a major career change. Even though exiting your business may be the best financial decision or, in some cases, you may not have a choice about exiting, considering your family goals as you explore the next step is important.

Emotional Stress and Counseling

Transitioning out of your business and your way of life may be one of the most stressful events you will ever experience. This is especially true if you are exiting due to financial stress. Although you might not believe it now, many farmers and fishermen have successfully and happily transitioned to a different career. Many successful business people started out with a farming background and took their work ethic and skills into another field. During this time of emotional stress, it may be very important for you get help. Counseling help is usually available. You might start by checking with your local county human services department or a member of your local clergy. If you don’t know where to ask for help, contact your local Extension Service and ask them where to find assistance.
Living Situation

What options do you have to continue to live in your home and in your community? The answer may depend on many of the issues discussed above. Can you find alternative employment or start a new business that will financially support you in your current living situation? If you live on a farm, can you retain ownership of it and rent out the land? If you need to sell the land, can you keep the farmstead and continue to live in your home? If you need to move to a different community to find employment, will you be able to continue to own a farm that may have been in your family for several generations? One of the most important aspects of these topics is whether you are willing to seek the help of friends, family, or business advisors to help you think through your options. Oftentimes someone else can help you think about options more broadly and, also, others can look at the situation without the emotional stress you may be experiencing.

Tax and Credit Issues

Taxes are one of the major issues you will need to address if you exit your business. If you are planning to sell your business or assets owned by your business, meet with a qualified tax advisor first. You should also keep your lender informed about your plans. Many assets have security agreements in which they are used as the collateral for the outstanding debt used to purchase the asset. Proceeds from assets sold with security agreements must be used to pay off the credit owed for the asset.

Income Taxes

Taxes can consume a major portion of the sales value of a business’s assets. Tax planning is critical if you are transitioning out of your business and selling business assets. When selling capital assets, you must pay income tax on the difference between the selling price and the tax basis of the asset. Tax basis is generally the amount you paid for the asset minus any tax depreciation you have claimed on it. Some assets, such as land, are not generally depreciated, so the tax basis is simply the difference between the selling price and the original purchase price. Most assets owned for more than 12 months qualify for capital gains tax rates. Capital gains rates are either 5% or 15%, depending on your income level. For assets that have been depreciated below their market value, the difference between the sales price and depreciated value will be taxed at your normal income tax rate.

There are ways to reduce the amount of tax you will pay on the sales of your capital assets. One method is installment sales of property. The installment method allows you to spread out the taxation proportionally over the years that principal payments are made. Another strategy is to sell assets over several years. Both the installment method and selling assets over time will often allow you to keep more taxable income in lower tax brackets. If you are selling a farm that includes your personal residence, up to $250,000 ($500,000 for married filing jointly) of capital gain on the residence can be excluded from taxation. In every case, you should consult a tax advisor.
**Self-Employment Tax**

Income tax must be paid on the sales of all farm or fishing assets, but self-employment tax is only due on current assets, such as crop and livestock inventories. You may want to consider selling all of your current assets in a single year if it will push your income over the self-employment tax limit. In 2003, self-employment tax is only charged on the first $87,000 of income. The self-employment tax threshold increases each year. Sales of capital assets including equipment, machinery, buildings, and land are not subject to self-employment taxes.

**Collateral and Security Agreements**

You have probably been discussing your situation with your lenders, but before you sell any assets you should contact the appropriate lenders to check on security agreements. You should repay outstanding loans against assets that you are selling or discuss a repayment plan and security release with your lender. Frequently, there is considerable debt against farming or fishing assets. Liquidating some assets may only generate enough cash to pay the outstanding debt or, in some cases, the sales revenue may be insufficient to cover the debt. You should keep lenders informed throughout the process and work with them.

**TAA Retraining and Education Opportunities**

Producers of commodities that are eligible for TAA benefits are also eligible for substantially more retraining and educational benefits than the typical producer or fisherman facing an exit from their business. To learn more about TAA retraining and educational benefits that are available, contact the Department of Labor TAA coordinator in your state ([http://www.doleta.gov/tradeact/contacts.cfm](http://www.doleta.gov/tradeact/contacts.cfm)). For some producers and fishermen, the TAA educational benefits may be the most significant benefit available under TAA. For others, such as those approaching retirement or unable to relocate to an area where jobs are available, the educational benefit may be less valuable.

The TAA Department of Labor program provides retraining and reemployment services tailored to help individuals prepare for employment in another job or career. Producers or fishermen may receive up to 104 weeks of approved training in occupational skills or basic or remedial education.

There are some conditions that you need to meet to receive the educational benefits. You must be able to complete your educational program within 104 weeks and be job ready at the end of that time. Generally that means you will need to earn some type of degree within the 104 weeks. The educational program must be fully paid for by the Department of Labor. You can’t supplement government payments with your own funds. This means that there are limits to how much the program can cost and on when you must complete it. Individual state labor agencies responsible for TAA have lists of educational programs in which TAA participants may enroll.
Summary

Whether to make the pivotal move of transitioning out of your farm or fishing business is a very personal decision that each person has to think through with the support of his or her family. Analyzing the financial viability of your business, determining the availability of alternative sources of income, working through the emotional and family issues, examining the tax consequences, and exploring retraining opportunities are important parts of the process. Assistance is available for all of these issues related to transitioning out of your business, but only you and your family can make the final decision.