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What Are You Worth?

Market values of land, equipment and other assets have increased rapidly in the last few years. In our discussions with farmers and ranchers on estate tax planning, we find many who undervalue their net worth by as much as 50 percent. This can mean serious problems in terms of farm management and estate planning decisions.

Why Determine Net Worth?

Farmers and ranchers need to determine net worth periodically for at least two reasons. First, substantial changes in net worth, such as that caused by recent large increases in land values, affect your estate plans and arrangements.

In 1940, the average size of an Idaho farm was 236 acres valued at $25.48 per acre, or an average farm value of $6,013. By 1976, the average size of Idaho farms had increased to 589 acres. The land was worth $419 per acre, so the average farm value was $246,791. Near major cities and recreation areas, farm values have increased much more rapidly than this average, and farm land is expected to continue to increase in value.

Since taxes at death are based on the estate's fair market value (and farm land is usually only one component of the farmer's gross estate), estate tax minimization and adequate estate liquidity become real problems. If the farm or ranch owner fails to determine net worth accurately and fails to plan adequately for an orderly transfer of assets to heirs, the consequence might be a forced sale of farm land or other assets to pay the estate taxes.*

A second reason for periodically re-evaluating net worth is to obtain accurate information for farm business decision-making. The farmer who makes investment decisions based on undervalued farm land, machinery or other assets may be losing opportunities to increase net income. For example, as farmland increases in value from $300 to $600 per acre, the overhead or "opportunity cost" associated with owning the land increases from $27 to $54 per acre, at a 9 percent interest rate. A farmer who bases investment decisions on $300 land values reduces by half the actual percentage return on land investment, and perhaps masks other investment opportunities more profitable than ownership of farm land.**

How to Determine Net Worth

To determine net worth, list all assets and liabilities of the farm family, then subtract the total liabilities. The table on the following page is one suggested format that can be used to prepare your net worth statement.

With some assets rapidly appreciating in value and others depreciating, you may find it difficult to estimate accurately the market value of land, livestock, equipment and personal property. You can base land values on recent sales of similar property in the area, though you should be careful in evaluating land values based on rumored sales. You will also find it helpful to consult with the local Extension Agricultural Agent, tax assessor, banker and real estate agents, and to review county records.

You can often determine the current values of automotive and farm equipment by referring to various dealer "blue books". Cash values of insurance policies and retirement programs can be obtained by examining the policies or the annual statements of the programs.

In Summary

Many farmers and ranchers overlook the need to prepare a systematic, current and complete net worth statement. Consequently, they may seriously underestimate their net worth and fail to plan properly for the orderly transfer of their estate to heirs. Lack of estate planning may result in excessive estate tax liabilities. Farm financial decisions based on undervalued assets can also contribute to reduced efficiency and lower profits for the farm business. These reasons emphasize the importance of asking periodically: *What are you worth?*

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*For a discussion and example of estate tax planning using a farm corporation, see University of Idaho Cooperative Extension Service Bulletin 572, "Farm Incorporation — An Advantage for You?"

**For example, a $30 return to land ownership is a 10% return on land valued at $300 per acre, but only 5% on land valued at $600. Farmers and ranchers considering property sales of course must consider more than return on investment. They need to be aware of the possibility of large tax liabilities on sale proceeds unless sale proceeds are reinvested in similar property.

FARM FAMILY NET WORTH STATEMENT

Net Worth Statement as of ________________, 19___

	Husband's Name	Wife's Name	Held Jointly
ASSETS		(dollars)	
FIXED DOLLAR			
1. Cash: a. on hand			
b. in checking accounts			
c. in savings accounts			
2. U.S. Savings Bonds			
3. Other bonds and preferred stocks			
4. Cash value of life insurance			
5. Money owed you			
Equities (assets whose value is subject to inflation)			
1. Farm real estate (current market value)			
a. land			
b. buildings			
2. Other real estate (rural and urban)			
3. Business interests			
4. Common stocks			
OTHER FARM ASSETS			
1. Machinery & equipment			
2. Farm trucks			
3. Other tools			
4. Inventory			
a. crops			
b. livestock			
c. other			
OTHER ASSETS			
1. Household furnishings			
2. Other personal property (car, boat, jewelry)			
3. Current cash value of pension plans			
TOTALS			
LIABILITIES			
1. Amounts owed to banks			
2. Mortgages and land contracts payable			
3. Loans on life insurance			
4. Installment payments			
5. Other loans and notes payable			
TOTALS			
		NET WORTH (assets minus liabilities)	

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