



•1

The brains of the operation

Dr. Rodney Jones
 Oklahoma Farm Credit Professorship
 Agricultural Finance

Dr. Eric DeVuyst
 Professor and Neustadt Chair
 Agricultural Economics

J.C. Hobbs
 Associate Extension Specialist
 Agricultural Taxation

Garrett Reed
 Graduate Research Assistant
 Associate Attorney
 McAfee & Taft

Allison Wilton
 Undergraduate Research Assistant
 Economic Policy & Global Analysis Coordinator
 National Dairy Council

•2

Top six states in suicide rates

Rank	State	Rate	Deaths
1	WY	30.5	182
2	AK	27.5	204
3	MT	26.1	300
4	NM	24.2	516
5	ID	23.2	419
6	OK	21.9	869

•3

Risk in agriculture

•4

Toxic Grit

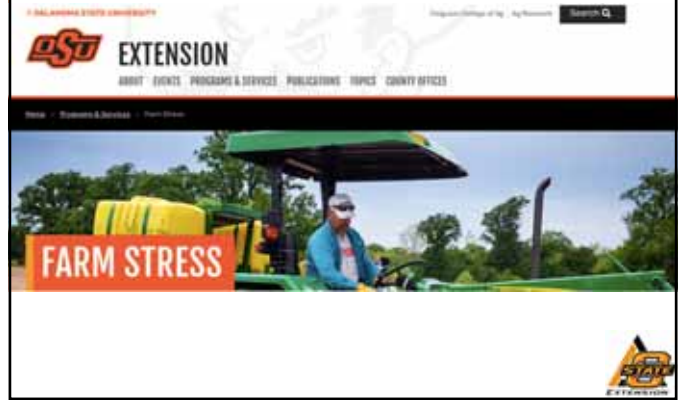
Could our greatest strengths be our greatest weaknesses?

- **Fierce independence / self-reliance**
 - Counterpoint: physical, social, and emotional isolation
- **“Tough as nails” – able to withstand the many traumas of a risky environment**
 - Counterpoint: humans don’t have *limitless ability* to process trauma without support
- **“Suck it up, buttercup!”**
 - Counterpoint: agriculture might be the worst industry ever in terms of talking about feelings and getting others to do the same
- **Multi-generational legacy of business and assets...**
 - Counterpoint: “If you blow it, you’ll have ruined what it took generations to build...”
- **Strength in community – tremendous, sacrificial support in times of crisis**
 - Counterpoint: for some reason, mental health concerns are the glaring exception to this



•5

<http://extension.okstate.edu/farmstress>



•6

Topics



Communications During Stressful Times
 Dr. Andrew Gentry discusses the value of effective communication during stressful times, including strategies for managing stress through strong relationships in the industry and across communities.



Down on the Farm: When Disaster Hits
 Dr. Robert Carter explains common challenges and resources that Oklahoma farmers face when disaster strikes, including strategies for farm safety, food security, food security, and disaster preparedness.



Introduction to Mental Health
 Dr. Matt Stone gives an overview of the signs and symptoms of mental health issues and provides information on how to seek help. He also discusses the importance of mental health care and the role of community support in recovery.



Managing Farm Stress
 Dr. Steven Gentry introduces a new approach to understanding the unique challenges of farm stress and offers a variety of strategies for stress management. He also discusses the importance of seeking help and the role of community support in recovery.



Managing Stress Through Resilience
 Dr. Steven Gentry explains how resilience is a key factor in managing stress and provides strategies for building resilience in the face of adversity.



Suicide Awareness & Prevention in the Farming Community
 Dr. Andrew Gentry provides a detailed overview of the warning signs of suicide and offers strategies for recognizing and responding to suicidal thoughts and behaviors.

•7

You CAN do something!



Mental Health FIRST AID
 from NATIONAL COUNCIL FOR MENTAL WELLBEING



mentalhealthfirstaid.org

qprinstitute.com



•8



• 9

YOU (yeah, YOU) NEED THIS STUFF!

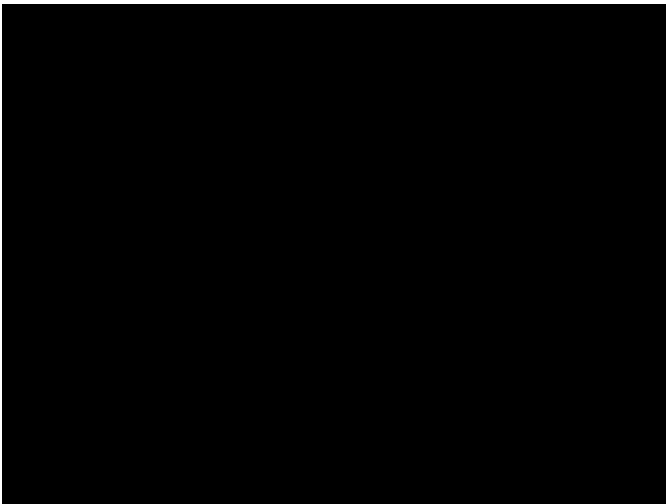
Slam dunk without-a-doubt

- Guardian nomination for minor children
- Beneficiary designations
- Durable powers of attorney
 - Business
 - Healthcare
- Advanced directive for health care
- Long-term care *planning*
- Will

And you really need to think about

- Trust
- Life insurance
- Long-term care *insurance*

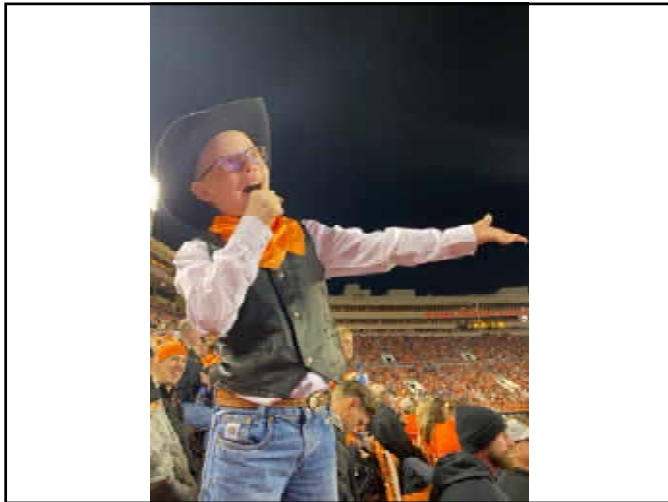
• 10



• 11




• 12



• 13

Mark 6:4
 Jesus said to them, "A prophet is not without honor except in his hometown and among his own relatives and in his own household."


Ferrell's corollary:
 You cannot regard someone as an expert if you have changed their diaper.



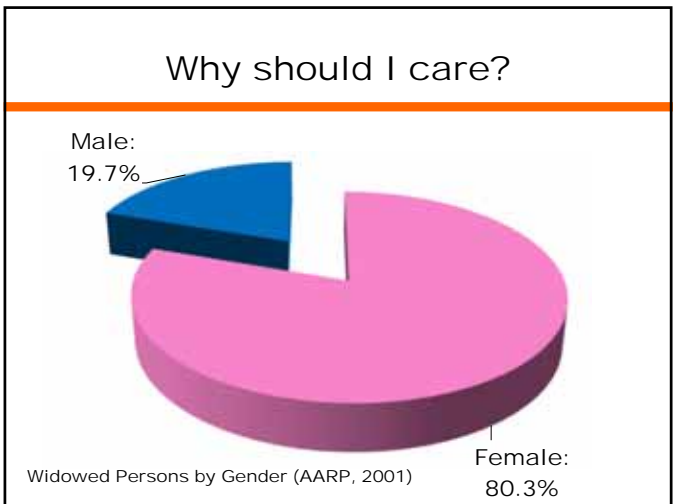
• 14

Numbers don't lie

55%	U.S. adults with no estate planning tools
64%	Farm/agribusiness owners with no estate planning tools
88%	Farm/agribusiness owners with no retirement plan



• 15



• 16

Causes of business failure after a generational transfer

- Inadequate estate planning
- Insufficient capitalization
- Failure to prepare the next generation properly

Source: Spafford, 2006



•17

Challenges in farm transition



•18

Challenges in farm transition

45 94 97 70



•19



•20



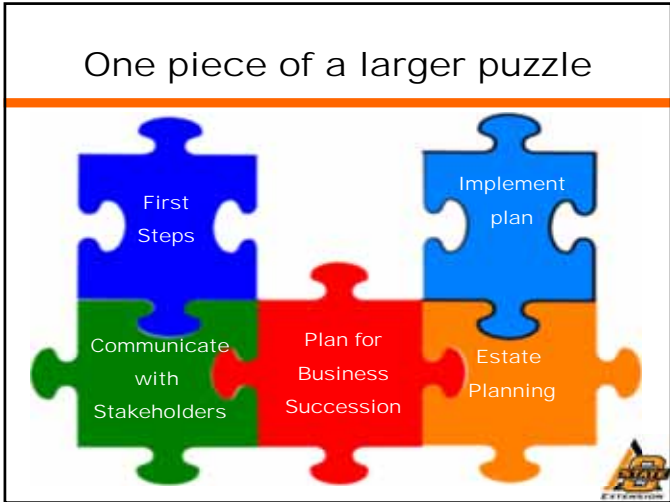
•21



•22



•23



•24

What a transition might look like

- Modeled dairy
- 1500 head dairy in Northern Intermountain West
- \$11,362,000 in total asset value
- 425 owned acres, 425 rented
- 550 acres corn silage, 300 acres hay
- \$642,850 average net cash farm income
- Milk sales = 90% of most recent year's gross receipts
- Four stakeholders: Ma, Pa, Farm Kid, City Kid
- 20 year planning horizon
- Most recent published Farm Credit interest rates



Source: TAMU AFTC, "Representative Farms Economic Outlook for the 2023 FAPRI/AFTC Baseline," Working Paper 23-1, March 2023

•25

The Scenarios

Strategy	Description
1A	Farm Kid and City Kid get undivided interest in all assets (alt. title: force Farm Kid to buy out City Kid), Farm Kid finances with commercial lending
1B	Same as 1A, but with 20 year family loan at Applicable Federal Rate interest (5.03%)
2A	Give all farm assets to Farm Kid; give equal value to City Kid (equity investments)
2B	Same as 2A, but using with life insurance
3A	Farm Kid receives all non-RE farm assets, City Kid gets equal value (equity investments), land into trust
3B	Same as 3A, but using life insurance
4A	Farm Kid receives all non-RE farm assets, City Kid gets 1/2 value of those assets, land into trust
4B	Same as 4A, but using life insurance
5	Farm Kid makes lifetime purchase of Ma and Pa's equity in non-real estate assets over 20 years; Ma and Pa make equal gifts to Farm Kid and City Kid after second-to-die Land into trust

•26



•27

Remember, your ANCFI is \$642,850

Strategy	Probability of Success	What'll it cost, man? What'll it cost?!?!?	Who pays?
1A	0%	\$1,136,200 (Yr. 1) / \$660,394 (Yr. 2-5) / \$284,538 (Yr. 6-20)	Farm Kid
1B	0%	\$1,136,200 (Yr. 1) / \$306,896 (Yr. 2-20) OR 0 down and \$890,196 (Yr. 1-20)	Farm Kid
2A	15%	\$360,284	Ma & Pa
2B	94%	\$222,087	Ma & Pa
3A	100%	\$121,321	Ma & Pa
3B	100%	\$74,785	Ma & Pa
4A	100%	\$60,660	Ma & Pa
4B	100%	\$37,392	Ma & Pa
5	100%	\$191,300	Farm Kid

•28

Probability of success across for strategy picked by over 64% of farms and ranches

0.00%



•29



•30

Takeaways

- The runaway #1 strategy choice (used by >64% of farms) is the one with ZERO chance of actually working.
- Nobody thinks about *WHO'S* paying for the planning (or lack thereof).
- Time can be your enemy or your ally – it just depends on when you start.



•31

The value of transition planning

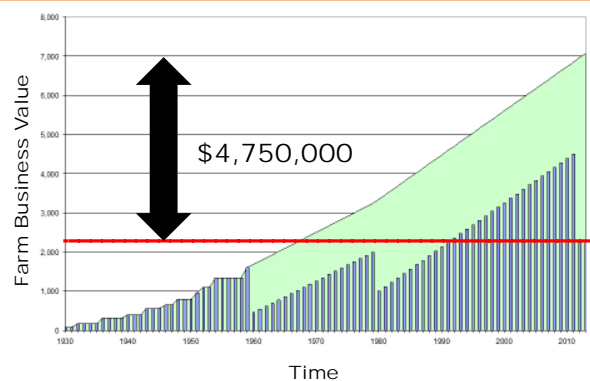
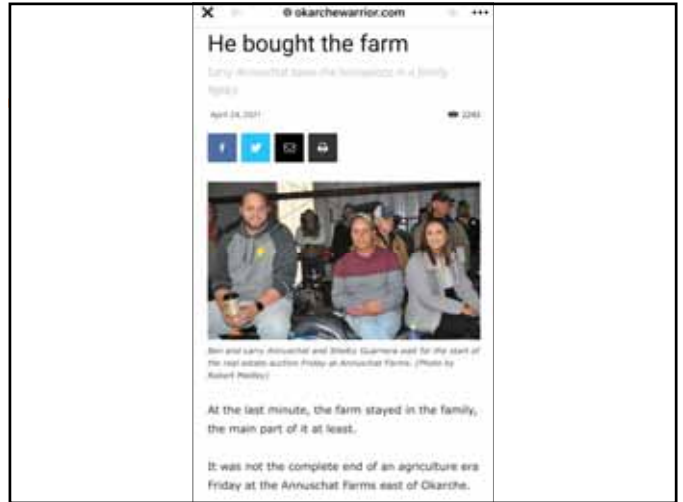


Illustration courtesy Dick Wittman, Wittman Consulting

•32



•33




•34



•35

Five steps to a successful transition

1. INVENTORY: Determine where you are now
2. TALK: Communicate with stakeholders
3. PLAN: Develop a business succession plan
4. WILL: Develop a plan for your estate / gifts
5. DON'T STOP: Deploy / evaluate / revise



•36

Step 1: INVENTORY

- Every THING
- Every ONE
- Every MEASURE
- Every GOAL
- Every VALUE



•37

Step 2: TALK



•38

Establish the environment

- Who: ALL stakeholders
- What: a talk about the farm
- When: NOT a holiday
- Where:
 - A comfortable place
 - NOT anyone's home
 - Free of distractions
- Why? To ask "What is your vision of this operation and what do you see as your role in that future?"

•39



•40





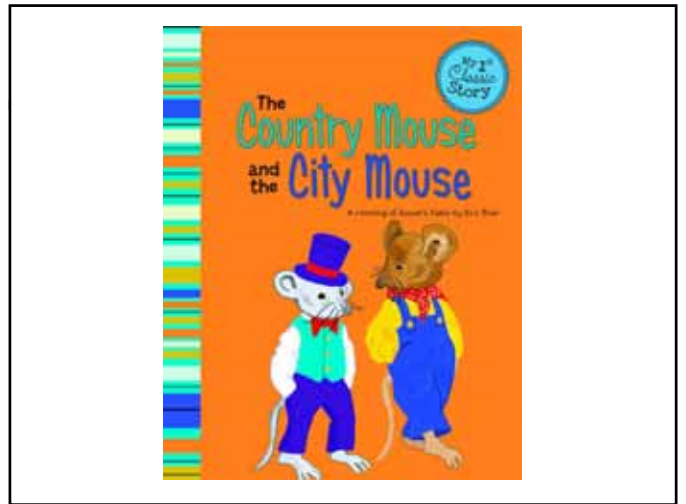
•41



•42



•43



•44

Common ground: a principles-based transition process



•45

Relationships first.

Wherever possible, we will prioritize the relationships of our family and stakeholders, recognizing that this is a mutual obligation.

In some cases, relationships may have to be prioritized over economics.



•46

Profitability matters.

The economic well-being of the farm operation directly impacts the economic well-being of those who depend on it.



•47

We seek equity, not equality.

"Sometimes right isn't equal, sometimes equal's not fair."
Corb Lund, "The S Lazy H"



•48

Participation is an opportunity, not an entitlement.

Profiting from the farm is not a birthright. It is earned by contributions of labor, management, and capital to the farm.



•49

You deserve the chance to profit from your contribution.

If someone contributes management, labor, or capital, they should have the opportunity to receive an economic return from that contribution.

It is inequitable to receive the economic reward of an activity without also bearing the risk of that activity; conversely, those who assume the risk of an activity should receive its rewards.



•50

There can be no reward without risk.

It is inequitable to receive the economic reward of an activity without also bearing the risk of that activity; conversely, those who assume the risk of an activity should receive its rewards.



•51

Wealth without wisdom is a curse.

We have an obligation to prepare those who are about to receive something for it by sharing our experiences and knowledge. It is a disservice to someone to give them something without preparing them to receive it.



•52

Emotional connections matter.

The land carries powerful connections not just for those who work it, but those who were raised on it. We will acknowledge and respect those connections.



•53

Participation requires preparation.

Farming is a complex and challenging profession. Anyone who participates in the farm has an obligation to diligently study all the disciplines that impact it and to study the farm itself.



•54

Transparency is key to trust.

Those who participate in the farm deserve to know all relevant information about it. We have an obligation to share both that information and our experiences.



•55

Choice

Participation in the farm must be a mutual choice made with the complete free will of both the current authorities over the farm and those who want to be a part of it.



•56

Step 3:
Develop business succession plan



•57

So how do we move this stuff?

Sell it

Lease it

Move it through entity

Transfer at death



•58

Sale forms

Outright sale

Sale with accompanying loan

Installment sale

Financing (or "capital") "lease"



•59

Lease forms

Financing (or "capital") "lease"

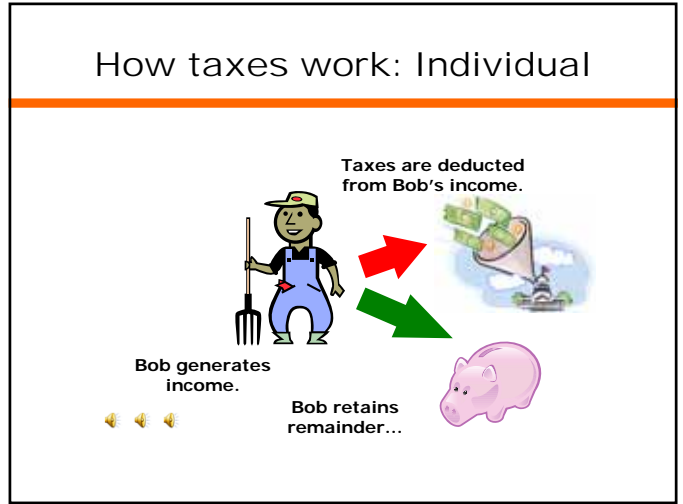
Operating lease



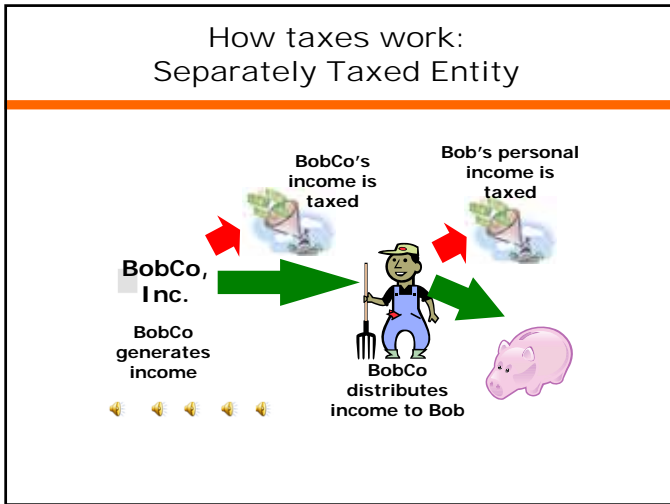
•60



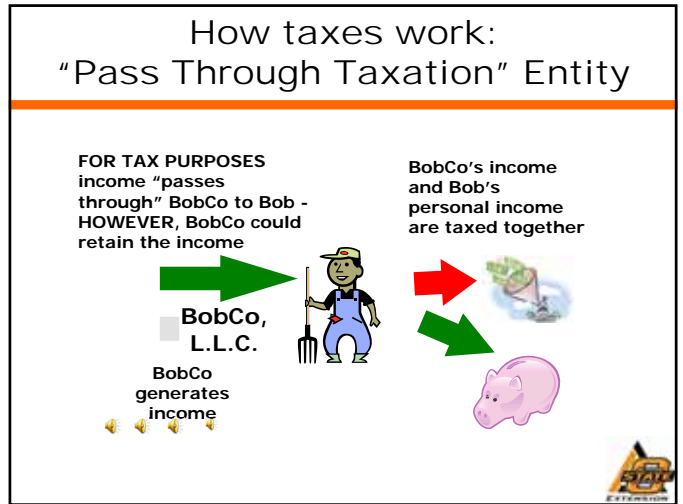
•61



•62



•63



•64

Why the heck would you want a pass-through entity?

- No double taxation!
- Simpler tax treatment (hopefully).
- Tradeoff: Owners are taxed on income of entity REGARDLESS of whether it is distributed to them.
- Moral: you better have a DARN good reason for choosing something other than a pass-through LLC



•65

Special Treatment of Family Farms

As mentioned earlier, family farms receive special treatment whereby every adult member—18 years or older—is deemed to meet the AEF requirements and is potentially eligible to receive farm program payments in an amount up to the individual payment limit. Furthermore, under the 2018 farm bill (§1703(a)(1)), the definition of *family member* was extended to include first cousins, nieces, and nephews.

Multiple Payment Limits for a Partnership

A partnership's potential payment limit is equal to the limit for a single person times the number of persons or legal entities that comprise the ownership of the joint operation plus any additional exemptions or exceptions. Adding a new member can provide one or two (with qualifying spouse) additional payment limits.

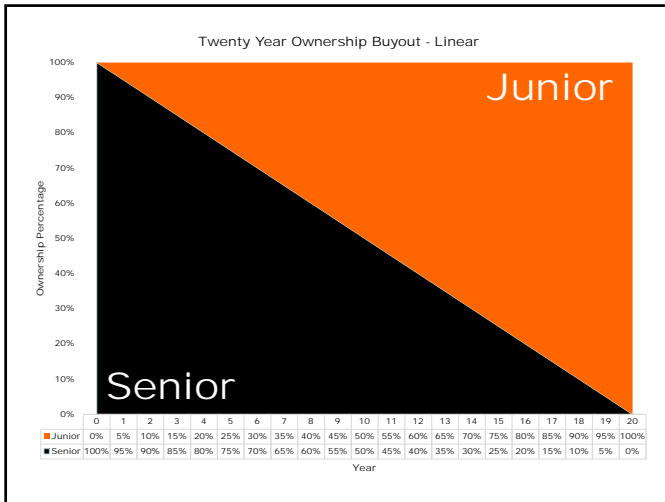
Each member of a partnership or joint venture must meet the AEF criteria and must be within the AGI limit. Furthermore, the partnership's total payment limit is reduced by the share of each single member who has already met his or her payment limit (or portion thereof) on another farm operation outside of the partnership.

Single Payment Limit for a Corporation

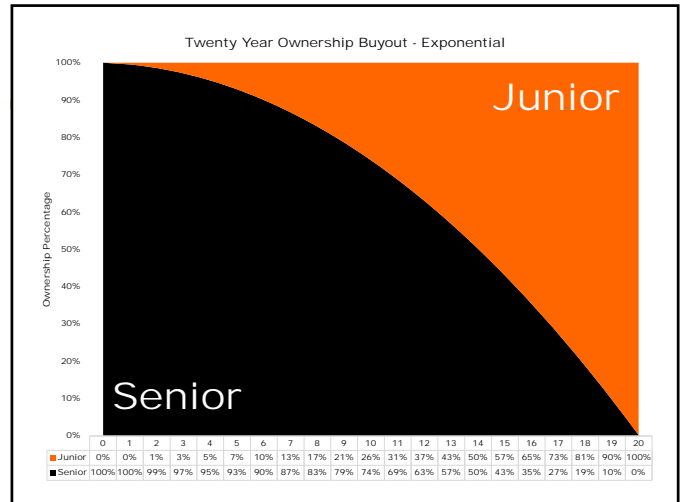
A corporation is treated as a single person for purposes of determining eligibility and payment limits—provided that the entity meets the AEF criteria. Adding a new member to the corporation generally does not affect the payment limit but only increases the number of members that can share a single payment limit.



•66



•67



•68

The Laban-Jacob Herd Transition



•69

Equipment depreciation and the treadmill



•70

Management & decision-making



•71

LLCs and Corporations Buy/sell agreements

- Ensures closely-held nature of business
- Often triggered by involuntary events

- Death
- Disability
- Divorce
- Debt
- Don't like 'em
- Don't wanna



•72

LLCs and Corporations Buy/sell agreements

- Valuation methods
 - Appraisal
 - Agreed appraiser?
 - If not, agreed procedure for selecting appraiser?
 - Experience with the business / industry?
 - Valuations based on book value
 - Adjustment of prior method by set value



• 73

Liquidity of funds



• 74

To pre-nup or not to pre-nup



• 75

Step 3: Develop business succession plan

- Critical issue: what if there are no successors?
 - Liquidate assets?
 - Hire operator?
 - Seek outside successor?
- Selecting a successor
 - Share-lease, joint project?
- Formalizing the relationship
 - Lease? Sale?
 - Entity formation and transition?



• 76

Bill Sell
@billionaire81

The new Shoup catalog is a snapshot of today's farm.
Some really old dude that refuses to quit farming and his 60+yo son that is still waiting to take over the farm.
Old dude: he's putting those steps on wrong.
Slightly less old dude: when is he gonna die?

• 77

Step 4: Develop estate / gift plan

• 78

Fun facts

- The long-term human mortality rate is 100%
- Implementation of an estate is NOT an "if" question, it is a "when" question.
- "When" is absolutely unknowable

• 79

Intestate succession

Pros	Cons
Well, uh... its definitely low-effort on your part	Unable to select who handles your affairs (and several people may "volunteer"
	Unable to direct who gets your property - succession rules dictate heirs
	No provision for stepchildren, nephews, cousins, charities, etc.

• 80

Wills	
Pros	Cons
Leaves control with testator until death	Must go through probate
Can direct where property goes - almost anywhere	Easily contested
Can select executor	Lengthy and public process
Can name guardians	State-specific
Does its job then goes away	Cannot operate "long-term" w/o other tools


•81

LIVING TRUSTS	
Pros	Cons
Eliminates probate for assets in trust	May have trustee fees
Don't need guardian to hold assets for minors	Adds complexity to management of assets in life
Not public information	Requires coordination with other estate tools
Very difficult to contest	Still needs will

•82

Items to be considered in creating revocable living trusts
<p>1. Trustee</p> <ul style="list-style-type: none"> - Co-Trustee - Successor Trustee
<p>2. Beneficiaries</p>
<p>3. Duration of Trust</p>

•83

Items to be considered in creating revocable living trusts
<p>4. Rights of Trustee</p> <ul style="list-style-type: none"> - Buy, sell and lease property


•84

Items to be considered in creating revocable living trusts

4. Rights of Trustee

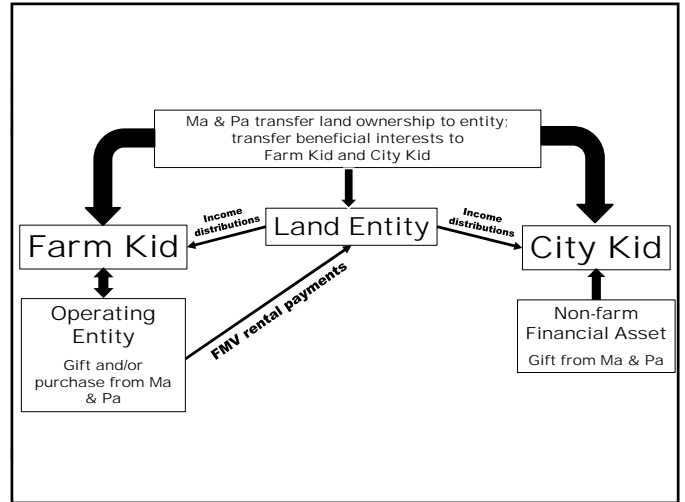
- Buy, sell and lease property
- Lease minerals, wind, solar, & other rights
- Invest funds
- Distribute trust income
- Distribute trust principal

5. Uses of trust income and principal

6. Timing of distribution to beneficiaries



•85



•86

Controversial "hot take" by Ferrell

Rigor mortis makes you an inflexible farm manager



•87

DEATH AND TAXES

•88

The estate tax exemption ain't been \$600,000 for about 40 years, son

Period	Exemption Amount
2017	\$5,490,000
2018	\$11,180,000
2019	\$11,400,000
2020	\$11,580,000
2021	\$11,700,000
2022	\$12,060,000
2023	\$12,920,000
2024	\$13,610,000

Source: Kiplingers, 2023

• 89

The current estate tax landscape (2024)

- Federal:
 - \$13.61 million unified credit
 - \$27.22 million combined credit
 - 40% marginal rate past exemption
 - Spousal portability retained
 - Stepped-up basis retained
 - \$18,000 / \$36,000 annual gift limit
 - NOT A WALL - "unified credit"
- Sunsets and ABCs



• 90

Spousal Portability Example

- 2024 Estate Tax Exemption = \$13.61 million per individual
- Total estate value \$20 million
- 50/50 value split between Dad and Mom



• 91

Spousal Portability Example

- Dad dies in 2024 with \$10.0 million in value assigned to his estate
- \$13.61 million credit
- \$10.00 million value
- \$3.61 million remaining credit
- \$0.00 taxable estate



• 92

Spousal Portability Example

- Time passes, stuff appreciates, and Mom dies December 31, 2025 with a \$17.61 million estate.
- Assume 2025 credit increases to \$14.00 million – still not enough to cover estate.

\$17.61 million estate
 -\$14.00 million credit
 \$3.61 million taxable estate



• 93

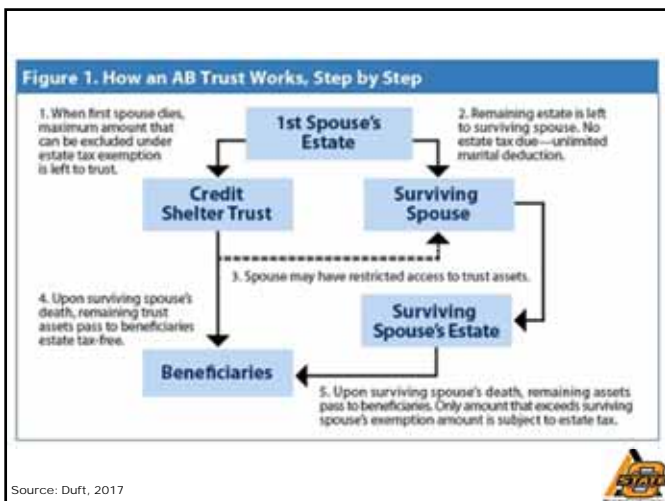
Spousal Portability Example

- Aha, but portability to the rescue!

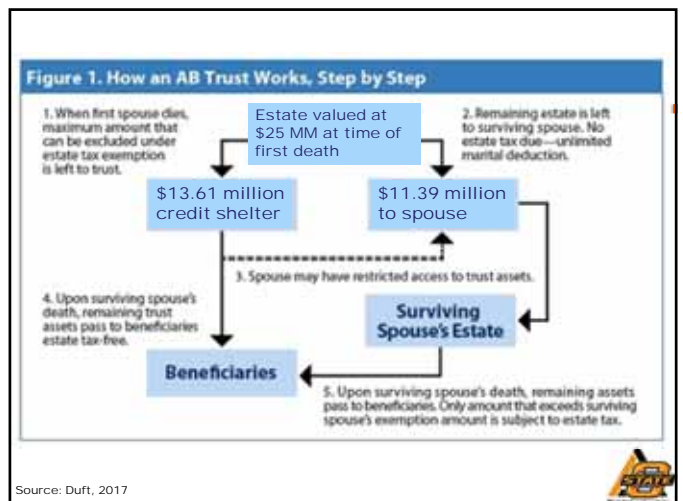
\$17.61 million estate
 -\$14.00 million credit
 -\$3.61 million Dad credit
 \$0.00 taxable estate



• 94



• 95



• 96

The "hit by a _____" plan



•97

Step 5:
Deploy your plans / evaluate / revise



•98

Leonid and lawyers



•99

Don't go it alone



•100

The transition team:
The Accountant



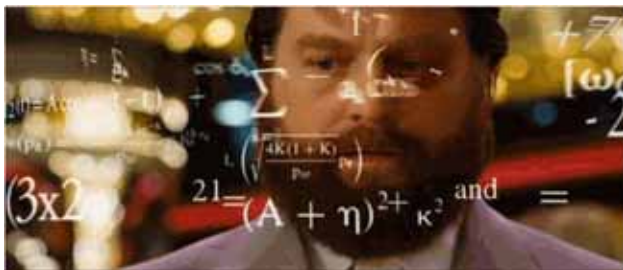
• 101

The transition team:
The Attorney



• 102

The transition team:
The Production Consultant



• 103

The transition team:
The Investment Advisor



• 104

The transition team:
The HR Advisor



• 105

The transition team:
The Referee



• 106

“No battle plan survives contact with the enemy.”
-Colin Powell



• 107

Pop quiz, hotshot!

- In a survey running across several hundred workshop participants from all segments of farm families, which of the following was consistently the highest-ranked priority in a farm transition?
 - Equal distribution of assets (value)
 - Preservation of farm asset base
 - Financial viability of operation after transition
 - **Preservation of family relationships**



• 108



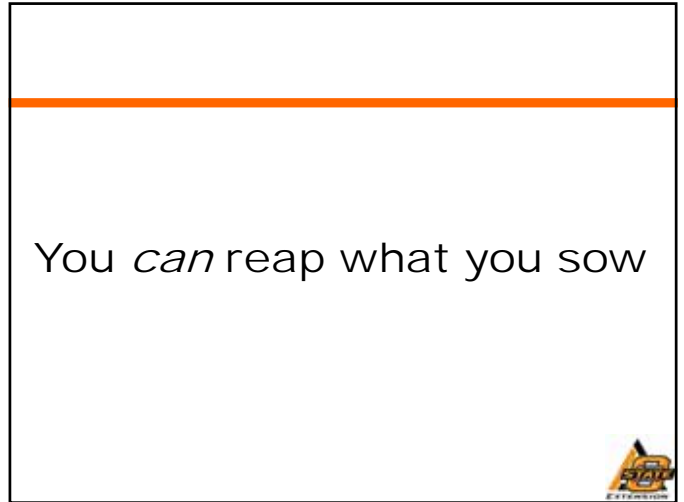
• 109



• 110



• 111



• 112

For more information

<https://extension.okstate.edu/>

and search "farm transitions"

shannon.l.ferrell@okstate.edu

@shanferrell



• 113