



The Mechanics of Building a Legacy:

Making sure your operation and your family survive a generational transition

2025 TEPAP Unit II

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WITH GRATEFUL ACKNOWLEDGEMENT TO

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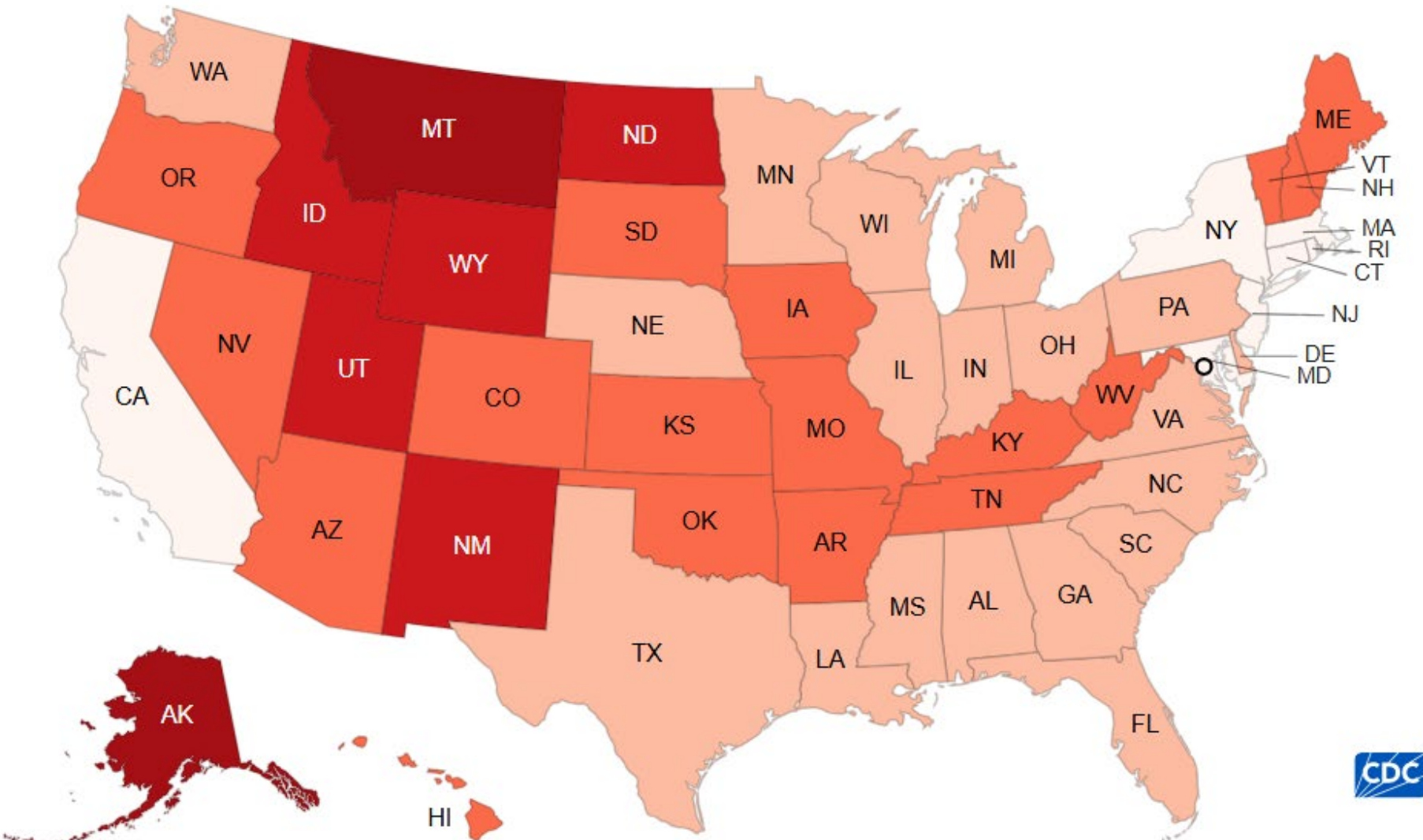
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State suicide rates

Rank	State	Rate	Deaths
1	MT	28.7	329
2	AK	27.6	200
3	WY	25.6	155
4	NM	24.7	525
5	ND	22.5	169
6	ID	22.2	444
7	UT	22.1	718
8	SD	21.6	192
9	OK	21.4	857
10	CO	21.1	1,293
11	NV	21	698
12	AZ	20.6	1,603
13	KS	20.5	596

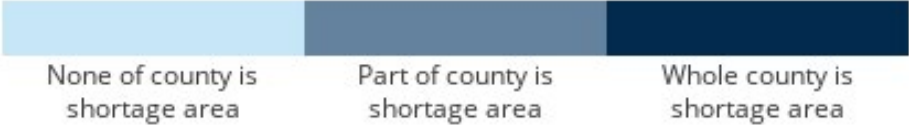
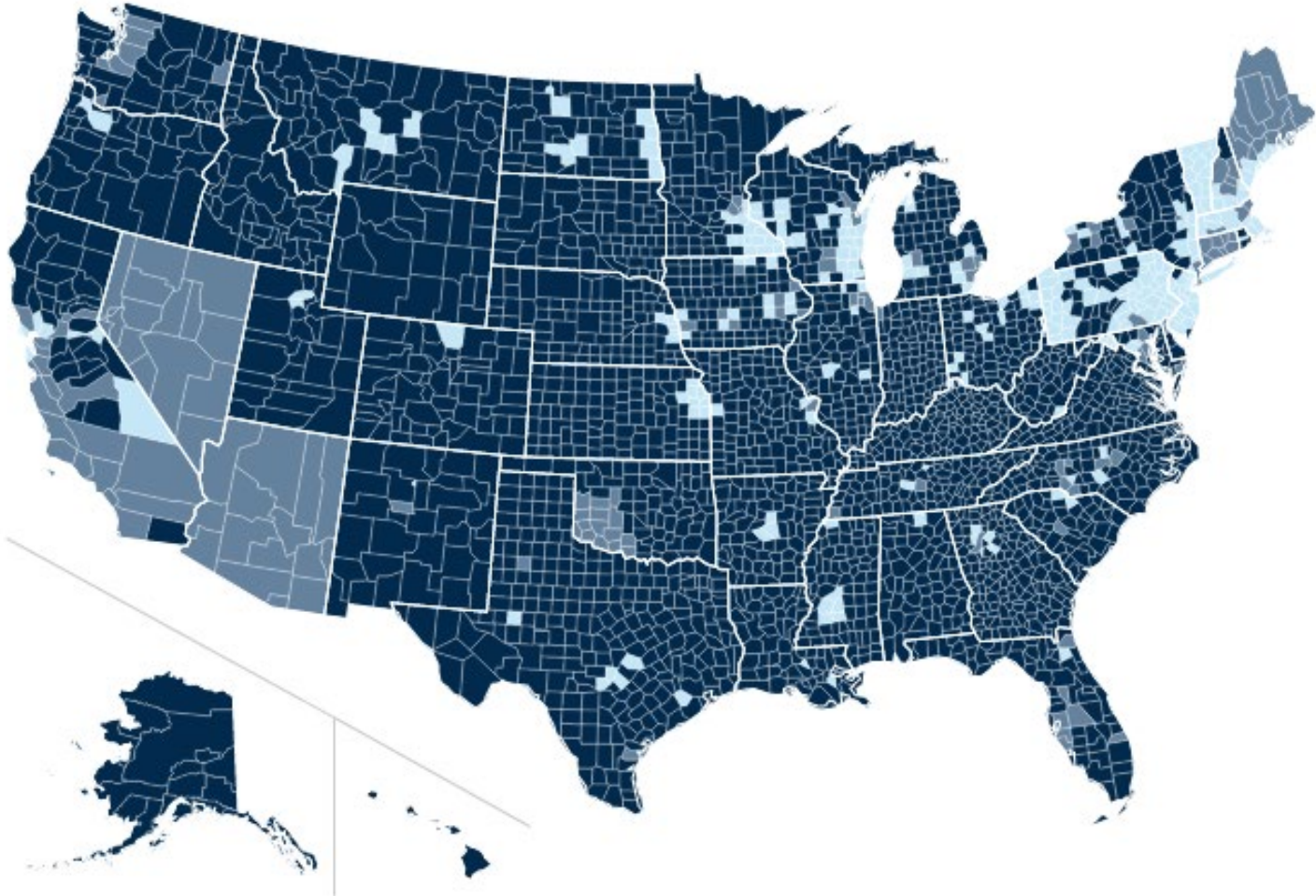


Age-Adjusted Death Rates¹



Source: CDC

Health Professional Shortage Areas: Mental Health, by County, October 2024

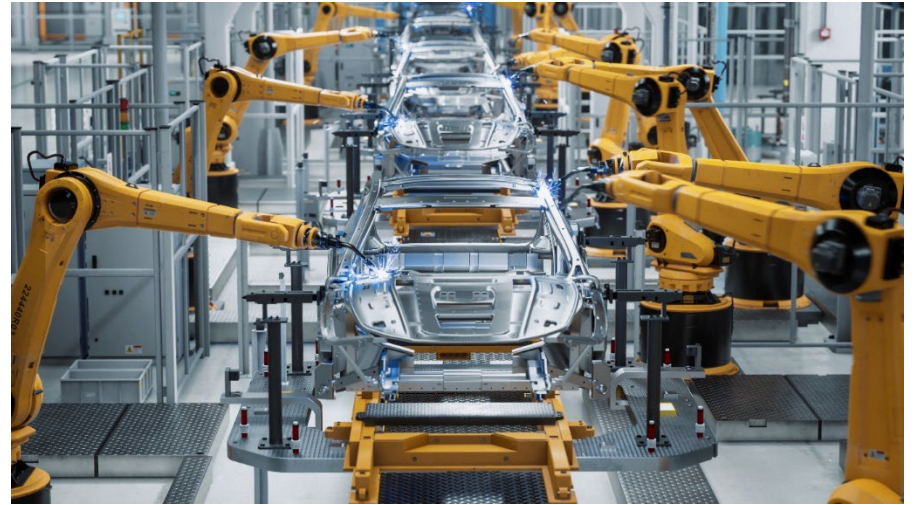
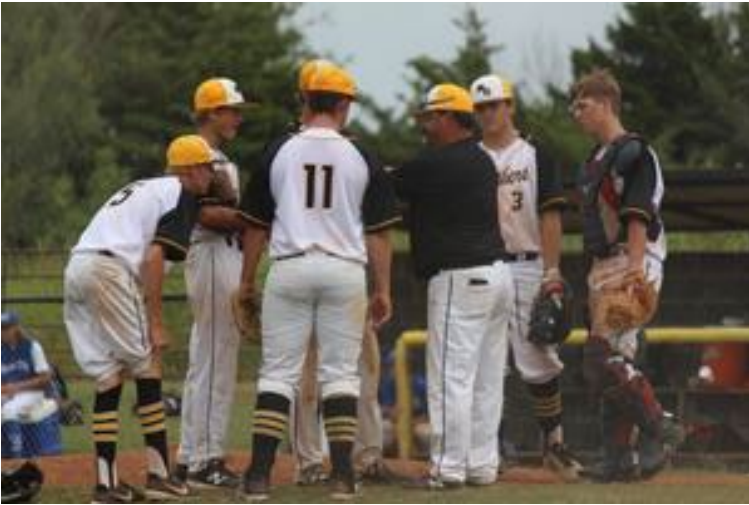


Mental health in Rural America by the numbers

- **Rural America:**

- **Rural mental health was in the toilet before COVID-19**
- **75% of rural Americans live in an area classified as a mental healthcare desert**
- **Agriculture's suicide rate is 4th among industry categories, and has one of the highest suicide completion rates**

Risk in agriculture and Oklahoma Class B baseball



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

The most valuable resources on a farm are the human resources

OKLAHOMA STATE UNIVERSITY



ABOUT EVENTS PROGRAMS & SERVICES PUBLICATIONS TOPICS COUNTY OFFICES

Ferguson College of Ag | Ag Research

Home / Programs & Services / Farm Stress



MICHIGAN STATE UNIVERSITY

MSU Extension
Managing Farm Stress

Responding To Farmers In Need | Teletherapy Program | Resilient Farms: Financial And Management Guides
Resilient Minds: Managing Stress On The Farm | Need Help Now?



Managing Farm Stress

Responding to Farmers in Need
Teletherapy Program
Resilient Farms: Financial and Management Guides
Resilient Minds: Managing Stress on the Farm
Need help now?

Rural Resilience Online Course - AFBF

Overview

Recognizing the high levels of stress affecting America's farmers and ranchers, Farm Credit, American Farm Bureau Federation and National Farmers Union have partnered on a program to train individuals who interact with farmers and ranchers to recognize signs of stress and offer help.



Michigan State University Extension developed the farm stress program. This program provides participants the skills to understand the sources of stress, learn the warning signs of stress and suicide, identify effective communication strategies, reduce stigma related to mental health concerns and connect farmers and ranchers with appropriate mental health and other resources.



K-State Research and Extension

Home Agriculture Community Family Food Health Lawn & Garden 4-H Youth

Nutrition	Stress Management The K-State Research and Extension Stress and Resiliency Team is an issue-focused team of agents and specialists dedicated to providing relevant and educational information about stress, stress management and resiliency, or one's ability to adapt positively to difficult experiences, to Kansans. Originally created to focus on rural stress, the team focus shifted to include all types of stress and general mental health information, because stress impacts all of us - regardless of demographic. One of the team's goals is to reduce the stigma surrounding mental health. Increasing awareness and people's willingness to talk about mental health will encourage more Kansans to get the help they need. Another goal is to equip Kansans with tools and techniques through preventative education and trainings, that help them recognize and manage stress within their lives, families and communities. Our team also strives to educate Kansans about resiliency - how to enhance it and how to incorporate it into their daily lives. To achieve these goals, our team offers various trainings (QPR Suicide Prevention, Mental Health First Aid, and MSU Farm Stress) that focus on educating Kansans on different stress and resiliency topics. For weekly updates from our Stress and Resiliency team, follow us on Facebook.
Wellness	
Health Care	
FCS	
Stress Management	
Resources	
Trainings and Programs	



K-State Research and Extension
Kansas State University
123 Umberger Hall
Manhattan, KS 66506

Upcoming Events

The K-State Stress and Resiliency team offers trainings and other events that are open to the public. Please check out our upcoming events below.

- TBD



You CAN do something!



Mental Health FIRST AID
from NATIONAL COUNCIL FOR MENTAL WELLBEING

mentalhealthfirstaid.org



qprinstitute.com

**MENTAL HEALTH
SUPPORT**

Scan to connect with
crisis support and resources.



**The
Do More
Agriculture
Foundation**

988

**SUICIDE
& CRISIS
LIFELINE**





Image source: Successful Farmer



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*





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.

Numbers don't lie

55%

**U.S. adults with no
estate planning tools**

64%

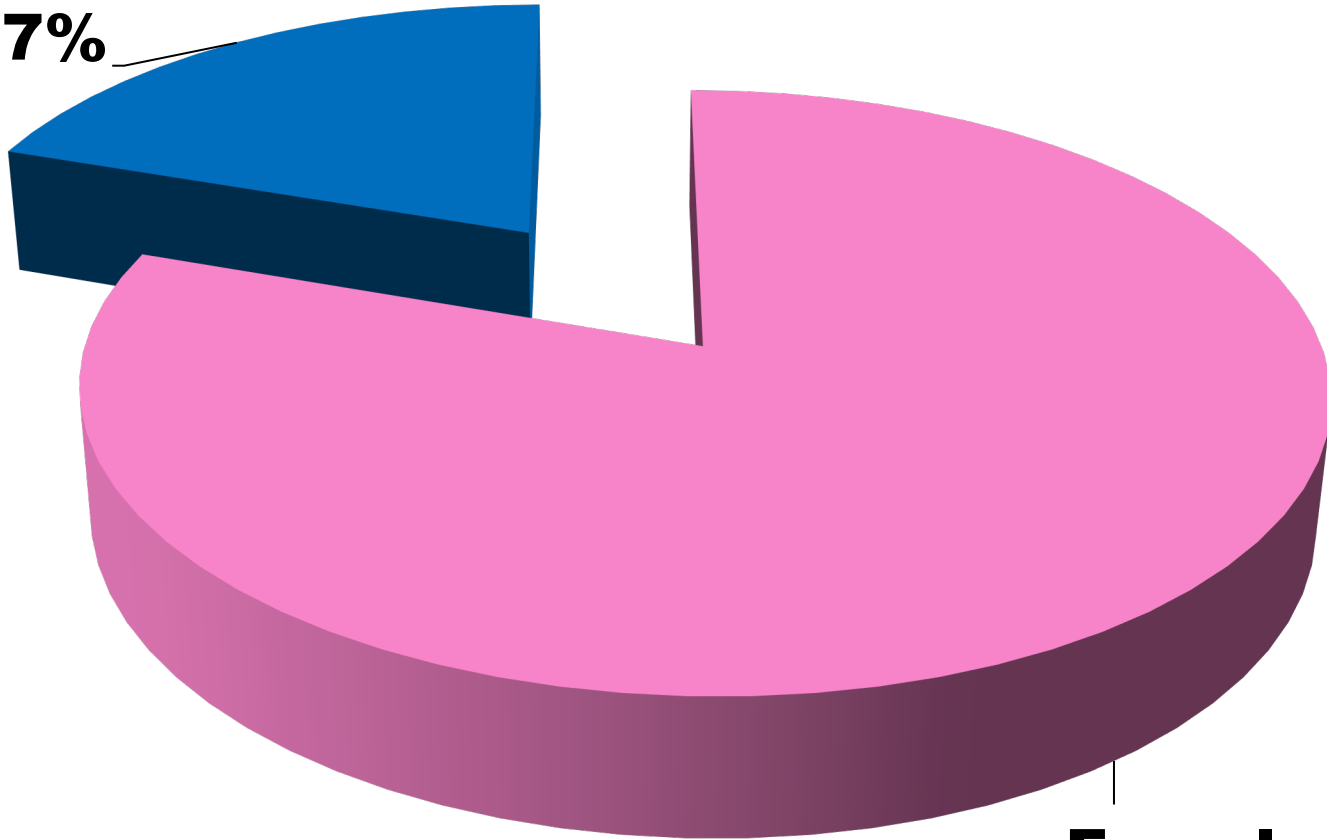
**Farm/agribusiness owners
with no estate planning tools**

88%

**Farm/agribusiness owners
with no retirement plan**

Why should I care?

**Male:
19.7%**



**Female:
80.3%**

Widowed Persons by Gender (AARP, 2001)

Causes of business failure after a generational transfer

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

Challenges in farm transition



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96

99

73

Image source: <http://www.royal.gov.uk/ThecurrentRoyalFamily/Overview.aspx>

Challenges in farm transition

45

94

97

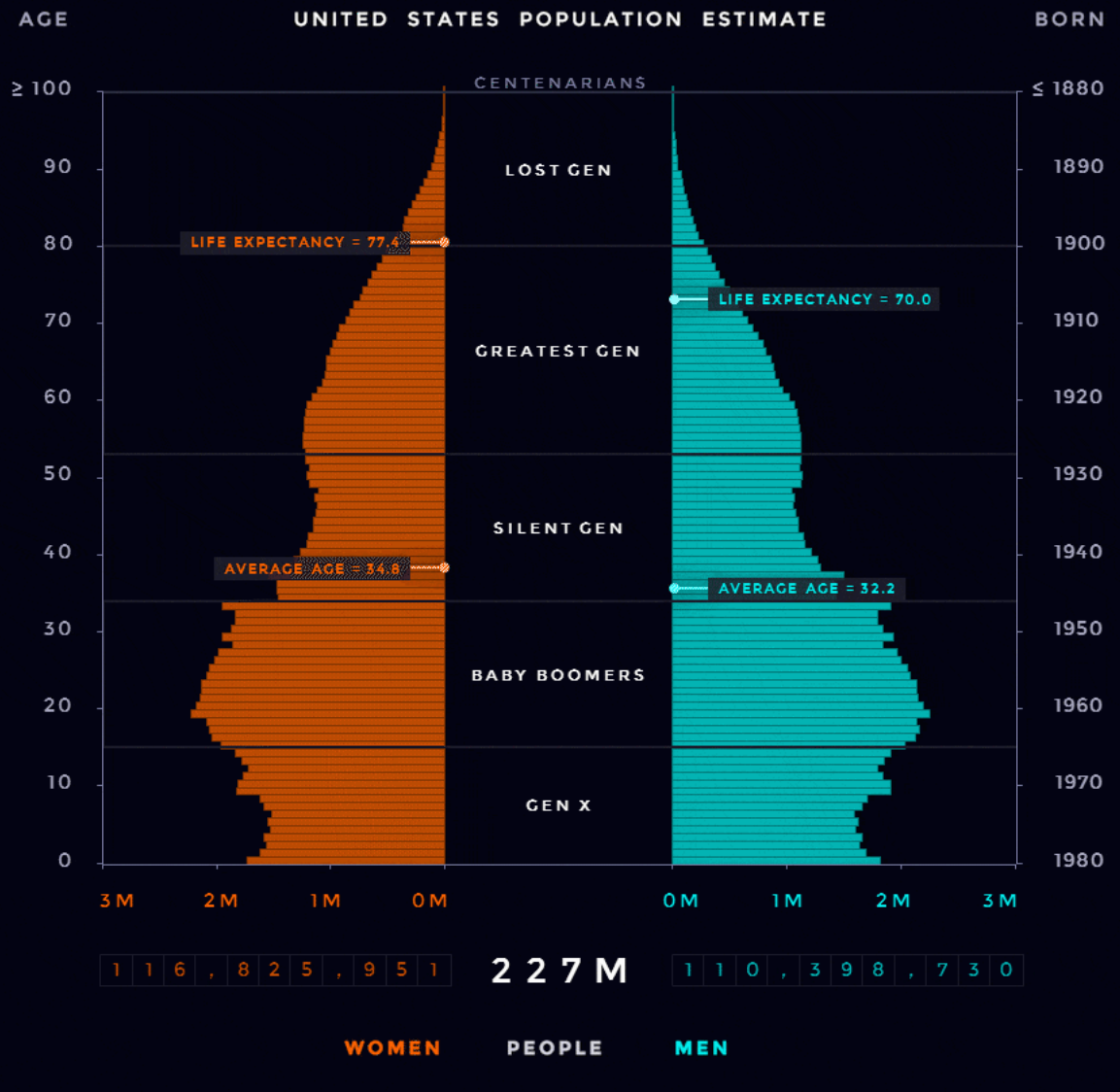
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LYING-IN-STATE QUEUE

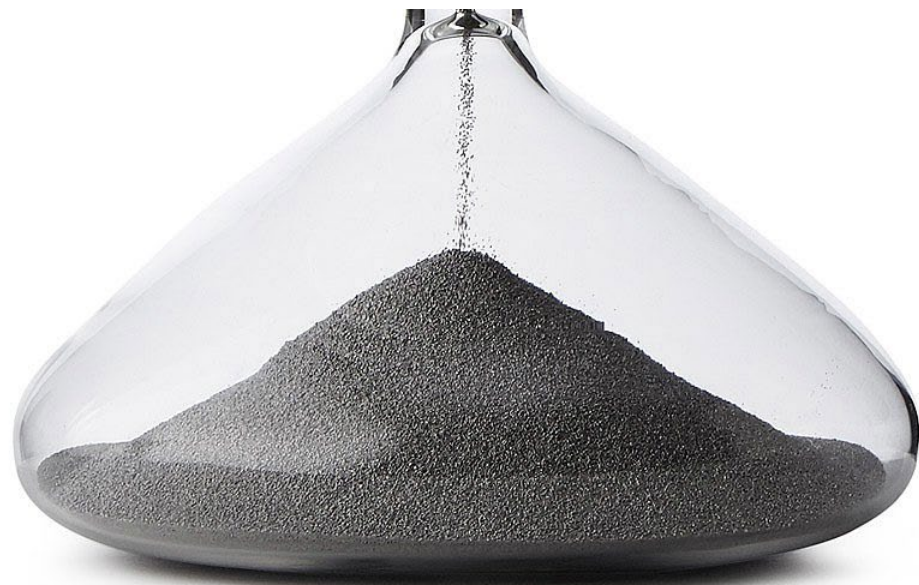


1980 | 2050

1980



Source: Visual Capitalist



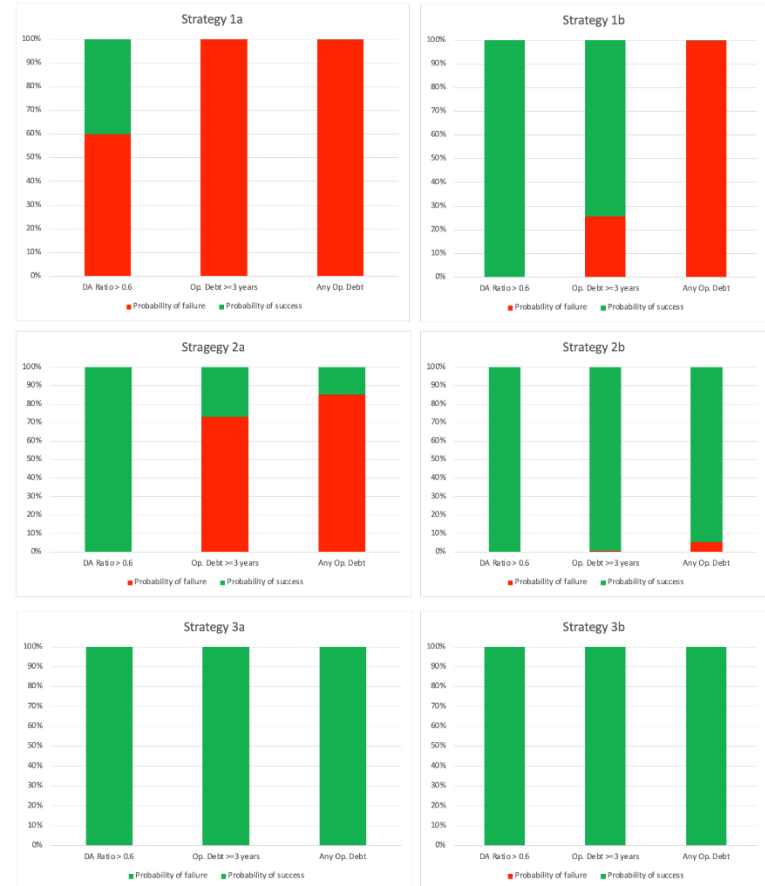
The Farm Transition Simulator: What are the odds this will work?

Farm Transition Simulator		
Process Form		
Balance Sheet		
Assets		
Breeding Livestock	\$	56,602
Machinery, Equipment	\$	1,012,499
Total Operational Assets	\$	1,069,101
Current Assets		
Buildings	\$	82,894
Land	\$	2,603,650
Total Assets	\$	3,755,645
Liabilities		
Breeding Livestock Debt		
Machinery, Equipment Debt		
Buildings Debt		
Land Debt		
Other Liabilities		
Total Liabilities	\$	-
Owner Equity	\$	3,755,645
Income and Expense		
Value of Farm Production	\$	271,048
Net Farm Income	\$	169,059
Family Living Expense	\$	70,000
Total Off-Farm Income	\$	44,356
1st Off-Farm Income	\$	44,356
2nd Off-Farm Income	\$	-
Debt Profile		
Breeding Livestock Debt		
Annual Payment		
Interest Rate		
Term to Maturity		
Machinery, Equipment Debt		
Annual Payment		
Interest Rate		
Term to Maturity		
Buildings Debt		
Annual Payment		
Interest Rate		
Term to Maturity		
Land Debt		
Annual Payment		
Interest Rate		
Term to Maturity		
Other Liabilities		
Annual Payment		
Interest Rate		
Term to Maturity		
Family Structure		
On-Farm Heirs		1
Off-Farm Heirs		1
Total Heirs		2
Potential Loan Profile		
Amount of Current Assets to Pay Towards Existing Debt		100000
Breeding Livestock		
Interest Rate		6.85%
Term Length		5
Equipment		
Interest Rate		6.85%
Term Length		5
Real Estate		
Interest Rate		7.50%
Term Length		20
Family Loan		
Applicable Federal Rate		3.98%
Term Length		20
Operating Line of Credit		
Applicable Federal Rate		9.25%
Investment/Life Insurance Profile		
Return On Investment		4.55%
Years Until Transition		20

The Farm Transition Simulator: What are the odds this will work?

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		Criteria		
Strategy	Probabilities	DA Ratio > 0.6	Op. Debt >=3 years	Any Op. Debt
1a - Commercial loan to buy out off-farm heirs	Probability of failure Probability of success	60% 40%	100% 0%	100% 0%
1b - Family loan from off-farm heirs at AFR interest	Probability of failure Probability of success	0% 100%	26% 74%	100% 0%
2a - Create fund equal to farm assets using stocks	Probability of failure Probability of success	0% 100%	73% 27%	85% 15%
2b - Create fund equal to farm assets using whole life ins.	Probability of failure Probability of success	0% 100%	1% 99%	6% 94%
3a - Create fund equal to operating assets using stocks	Probability of failure Probability of success	0% 100%	0% 100%	0% 100%
3b - Create fund equal to operating assets using whole life ins.	Probability of failure Probability of success	0% 100%	0% 100%	0% 100%
4a - Create fund equal to operating assets using stocks	Probability of failure Probability of success	0% 100%	0% 100%	0% 100%
4b - Create fund equal to 1/2 operating assets using whole life ins.	Probability of failure Probability of success	0% 100%	0% 100%	0% 100%
5 - Lifetime equity sale (operating assets)	Probability of failure Probability of success	0% 100%	0% 100%	Cash goes negative 100%



The strategies

- 1. Farm Kid & City Kid get undivided interest in all farm assets (Farm Kid buys out City Kid).**
 - a. Commercial lending**
 - b. Family loan at Applicable Federal Rate**
- 2. Farm Kid gets all operating assets, City Kid gets financial instrument of equal value, both share ownership of farmland.**
 - a. Using stock investment**
 - b. Using whole life insurance**

The strategies

- 3. Farm Kid gets operating assets (livestock, equipment, buildings), City Kid gets financial asset of equal value, they share land**
 - a. Using stock investment**
 - b. Using whole life insurance**
- 4. Farm Kid gets operating assets (livestock, equipment, buildings), City Kid gets financial asset of 1/2 value of operating assets, they share land**
 - a. Using stock investment**
 - b. Using whole life insurance**

The strategies

- 5. Farm Kid uses salary from farm to purchase equity in operating assets from Ma and Pa over 20-year span; they share land**
 - a. In years where Farm Kid can't afford purchase, Ma and Pa gift balance and keep "gift ledger" – Ma and Pa use sales proceeds to develop investment account.**

KFMA South Central Association Farms by “thirds”

	Top Third		Middle Third		Low Third	
Breeding Livestock	\$56,602		\$28,288		\$21,442	
Machinery & Equipment	\$1,012,499		\$499,177		\$ 152,462	
Buildings	\$82,894		\$27,155		\$ 11,700	
Land	\$2,603,650	69% 1,120 acres	\$1,442,237	72% 628 acres	\$ 516,111	74% 288 acres
Total Assets	\$3,755,645		\$1,996,857		\$ 701,715	
Net Farm Income	\$169,059		\$98,369		\$36,657	

And the results are in!

Strategy	Success Rate					
	Top Third		Mid Third		Lower Third	
	Op. Debt 3yr	No Op. Debt	Op. Debt 3yr	No Op. Debt	Op. Debt 3yr	No Op. Debt
1a: Down the middle, commercial loans	0%	0%	0%	0%	0%	0%
1b: Down the middle, family lending	74%	0%	57%	0%	3%	0%
2a: Create equal value non-farm asset, stocks	27%	15%	1%	1%	0%	0%
2b: Create equal value non-farm asset, life insurance	99%	94%	62%	48%	0%	0%
3a: Operating assets to Farm Kid, equal value stocks to City Kid, share land	100%	100%	99%	96%	0%	0%
3b: Operating assets to Farm Kid, equal value insurance to City Kid, share land	100%	100%	100%	99%	0%	0%
4a: Operating assets to Farm Kid, 1/2 value stocks to City Kid, share land	100%	100%	99%	98%	0%	0%
4b: Operating assets to Farm Kid, 1/2 value life insurance to City Kid, share land	100%	100%	100%	98%	0%	0%
	D:A > 0.6	Cash >= 0	D:A > 0.6	Cash >= 0	D:A > 0.6	Cash >= 0
Lifetime buyout of Ma and Pa's operating assets by Farm Kid	100%	100%	100%	100%	100%	0%

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

0.000%

SO YOU'RE SAYING

THERE'S A CHANCE?

memegenerator.net

WHAT'LL IT COST, MAN?



WHAT'LL IT COST?

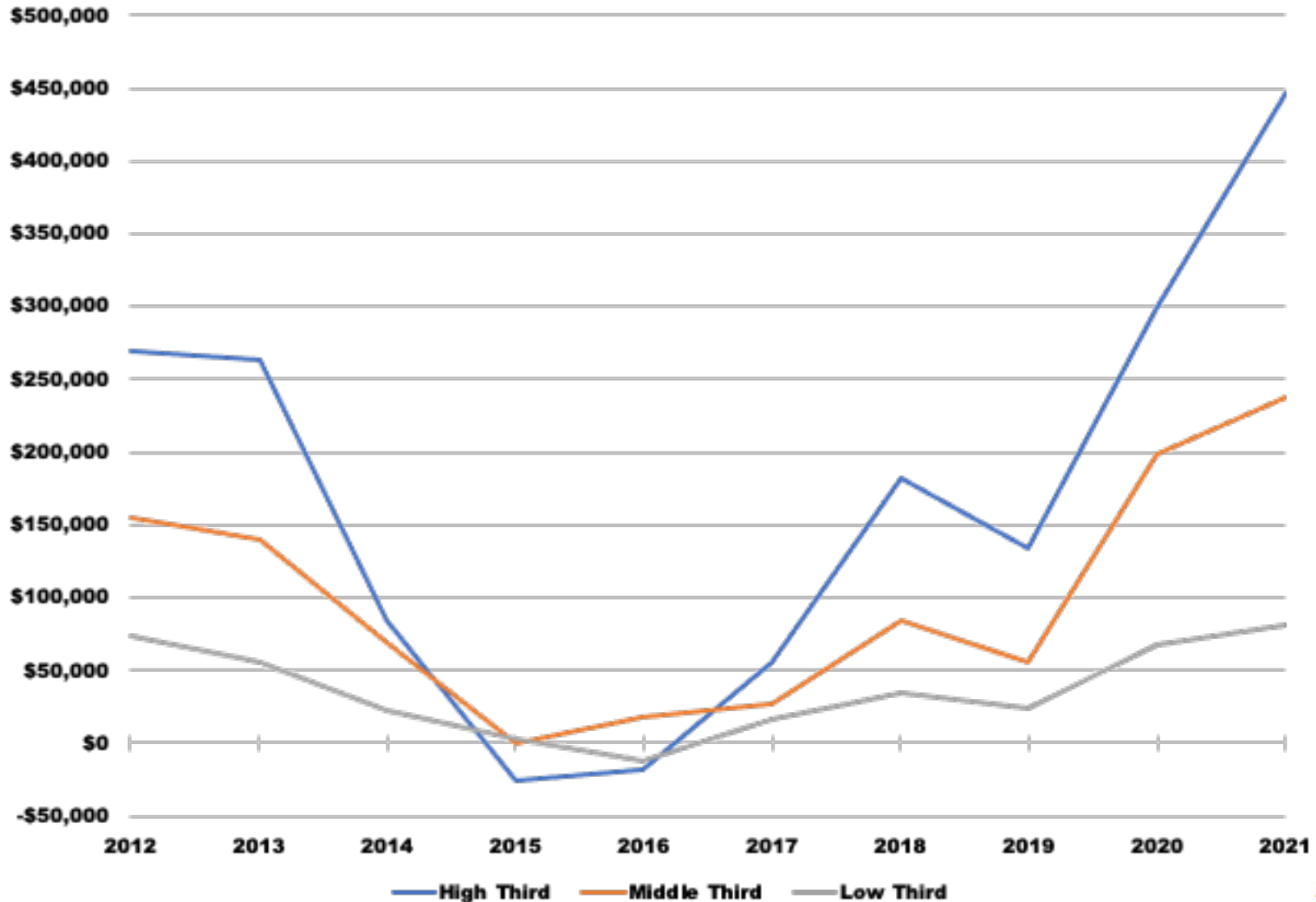
memegenerator.net

What'll it cost, man?! What'll it cost?!

(Top third operation NFI = \$169,059)

Strategy	Who pays	Annual expense
Buy out City Kid, comm lending	Farm Kid	\$375,565 down; \$198,359; \$97,528
Buy out City Kid, family loan	Farm Kid	\$375,565 down; \$101,443
Op. assets to farm kid, "share" land; investment	Ma & Pa	\$33,901
Op. assets to farm kid, "share" land; life ins.	Ma & Pa	\$20,987
Farm Kid buys op. assets	Farm Kid	\$53,455

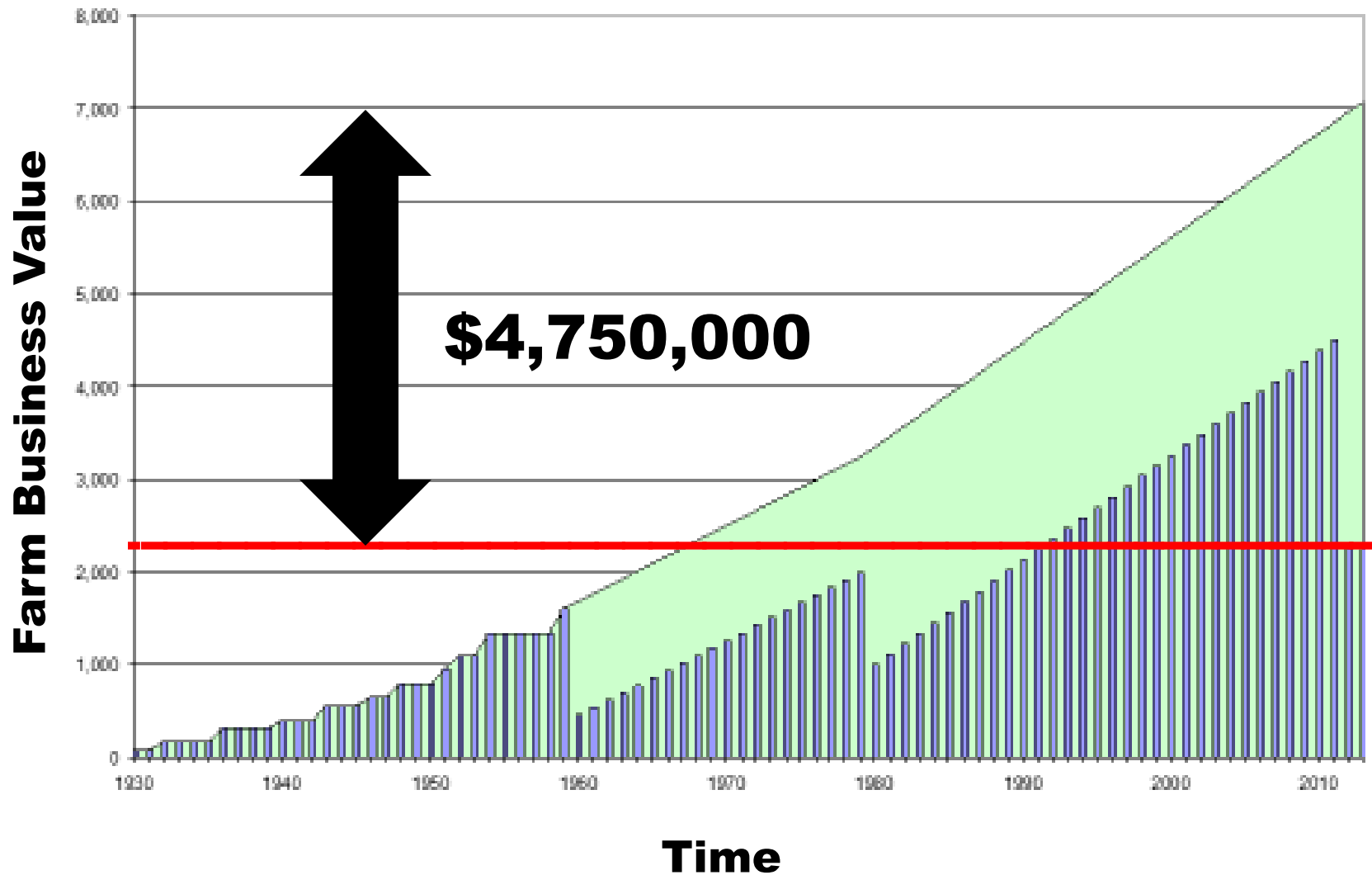
KFMA South Central Average NFI 2011-2021



Takeaways

- **The runaway #1 strategy choice (used by >64% of farms) is the one 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.**

The value of transition planning



829± ACRES * KINGFISHER COUNTY, OKARCHE OK
TRACTORS * TRAILERS * TILLAGE * VEHICLES * CATTLE
HAY EQUIP * HOUSEHOLD

ANNUSCHAT FARMS, LLC AUCTION
Friday April 23rd 10AM



AUCTION LOCATION: 28271 N. 2850 RD OKARCHE, OK
DIRECTIONS: From Okarche, OK. Go north on Hwy 81 2
miles to CR 870 (Duffy Rd), then 2 miles east on blacktop to
2850 Rd, then ½ mile north.
ALL TRACTS WILL BE SOLD FROM TRACT 1



**EQUIPMENT WILL SELL
IMMEDIATELY FOLLOWING THE
REAL ESTATE LARGE
EQUIPMENT WILL SELL
APPROXIMATELY 11:00AM**

He bought the farm

Larry Annuschat saves the homeplace in a family legacy

April 24, 2021

👁 2242



Ben and Larry Annuschat and Shelby Guarnera wait for the start of the real estate auction Friday at Annuschat Farms. (Photo by Robert Medley)

At the last minute, the farm stayed in the family, the main part of it at least.

It was not the complete end of an agriculture era Friday at the Annuschat Farms east of Okarche.

SO WHAT??????????



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**

Step 1: INVENTORY

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



Step 2: TALK



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?”



YOU GOTTA FIGHT FOR YOUR RIGHT

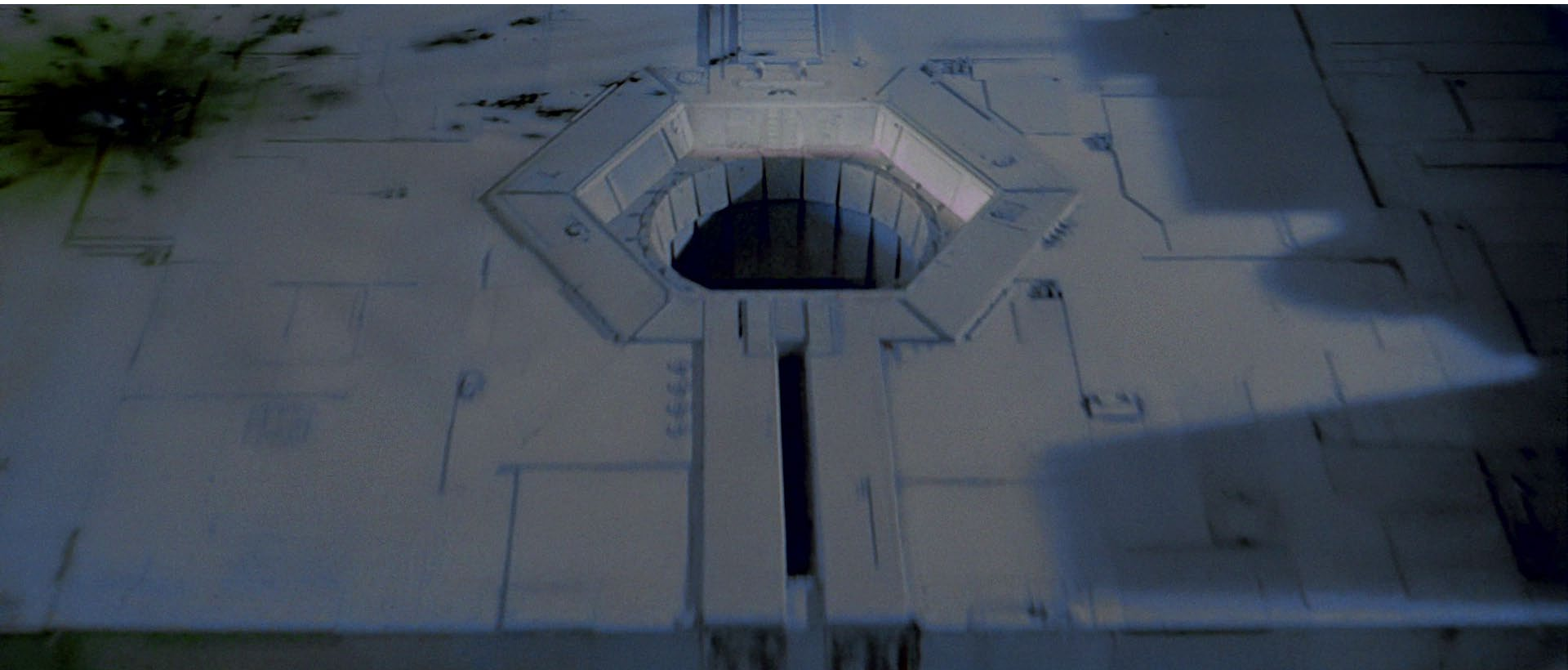


**TO RESPECTFULLY DISCUSS
FARM TRANSITION PLANNING WITH YOUR FAMILY**



I'M A **FARMER.** IT'S NOT *WHAT* I AM...
IT'S *WHO* I AM

R-E-S-P-E-C-T



My 1st
Classic
Story

The
Country Mouse
and the
City Mouse

A retelling of Aesop's Fable by Eric Blair



Why is this farm transition stuff so dang hard?

The Townsfolk

Asset Description	Value	% of total assets
Financial assets	\$3,125,000	83.3%
Primary home	\$300,000	8.0%
Vaca. home	\$200,000	5.3%
Other assets	\$125,000	3.3%
Total	\$3,750,000	100.0%

The Farmers

Asset description	Value	% of total assets
Financial assets	\$0	0.0%
Land & buildings	\$2,700,000	72.0%
Machinery & equip.	\$1,000,000	26.7%
Breeding livestock	\$50,000	1.3%
Total	\$3,750,000	100.0%

	Long-term S&P 500 rate of return	10.26%		
	20 year U.S. Treasury Rate	4.7420%		
	Value of City Kid Assets	\$ 1,875,000		

Year	NFI	50% Dividend	Annual return	33% Dividend	Annual return	25% Dividend	Annual return
1	\$ 169,059	\$ 84,530	4.51%	\$ 56,353	3.01%	\$ 42,265	2.25%
2	\$ 169,059	\$ 84,530	4.51%	\$ 56,353	3.01%	\$ 42,265	2.25%
3	\$ 169,059	\$ 84,530	4.51%	\$ 56,353	3.01%	\$ 42,265	2.25%
4	\$ 169,059	\$ 84,530	4.51%	\$ 56,353	3.01%	\$ 42,265	2.25%
5	\$ 169,059	\$ 84,530	4.51%	\$ 56,353	3.01%	\$ 42,265	2.25%
6	\$ 169,059	\$ 84,530	4.51%	\$ 56,353	3.01%	\$ 42,265	2.25%
7	\$ 169,059	\$ 84,530	4.51%	\$ 56,353	3.01%	\$ 42,265	2.25%
8	\$ 169,059	\$ 84,530	4.51%	\$ 56,353	3.01%	\$ 42,265	2.25%
9	\$ 169,059	\$ 84,530	4.51%	\$ 56,353	3.01%	\$ 42,265	2.25%
10	\$ 169,059	\$ 84,530	4.51%	\$ 56,353	3.01%	\$ 42,265	2.25%
11	\$ 169,059	\$ 84,530	4.51%	\$ 56,353	3.01%	\$ 42,265	2.25%
12	\$ 169,059	\$ 84,530	4.51%	\$ 56,353	3.01%	\$ 42,265	2.25%
13	\$ 169,059	\$ 84,530	4.51%	\$ 56,353	3.01%	\$ 42,265	2.25%
14	\$ 169,059	\$ 84,530	4.51%	\$ 56,353	3.01%	\$ 42,265	2.25%
15	\$ 169,059	\$ 84,530	4.51%	\$ 56,353	3.01%	\$ 42,265	2.25%
16	\$ 169,059	\$ 84,530	4.51%	\$ 56,353	3.01%	\$ 42,265	2.25%
17	\$ 169,059	\$ 84,530	4.51%	\$ 56,353	3.01%	\$ 42,265	2.25%
18	\$ 169,059	\$ 84,530	4.51%	\$ 56,353	3.01%	\$ 42,265	2.25%
19	\$ 169,059	\$ 84,530	4.51%	\$ 56,353	3.01%	\$ 42,265	2.25%
20	\$ 169,059	\$ 84,530	4.51%	\$ 56,353	3.01%	\$ 42,265	2.25%
	Total	\$ 1,690,590		\$ 1,127,060		\$ 845,295	
	Average	\$ 84,530	4.51%	\$ 56,353	3.01%	\$ 42,265	2.25%

					Initial asset value	\$ 1,875,000
Invested for 20 years, S&P 500 Index hist. avg. return (10.26%)					\$ 13,152,170	
Invested for 20 years, 20 Year U.S. Treasury Note (4.742%)					\$ 4,736,074	
	Average annual return	20 year FV, S&P 500 avg.	Relative value to ref. investment	20 year FV, 20 year U.S. Treas.	Relative value to ref. investment	
50% dividend	4.51%	\$4,986,722	(\$8,165,448)	\$2,720,036	(\$2,016,039)	
33% dividend	3.01%	\$3,324,481	(\$9,827,689)	\$1,813,357	(\$2,922,717)	
25% dividend	2.25%	\$2,493,361	(\$10,658,809)	\$1,360,018	(\$3,376,056)	

Common ground: a principles-based transition process

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.



Profitability matters.

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

Sustainability subsumes profitability.

We will therefore make all due efforts to preserve the profitability of the business, subject to the priority we place on family relationships.



What is a gift is a gift, what is earned is earned.

A gift is unearned and is freely given to express love, affection, and generosity.

If someone has an equitable claim to property or a privilege deriving from their contribution of management, labor, and/or capital to its acquisition or growth, that claim is earned and to give it to another is inequitable.

**We seek equity,
not equality.**

**“Sometimes right isn’t equal, sometimes equal’s not fair.”
Corb Lund, “The S Lazy H”**

Participation is an opportunity, not an entitlement.

Participation in the operations of the agribusiness and receiving economic returns from it is not a birthright. It is earned by contributions of labor, management, and capital to the farm.

**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.**



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.

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.

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.

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.

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.

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.

Step 3: Develop business succession plan



So how do we move this stuff?

Sell it

Lease it

Move it through entity

Transfer at death

Sale forms

Outright sale

Sale with accompanying loan

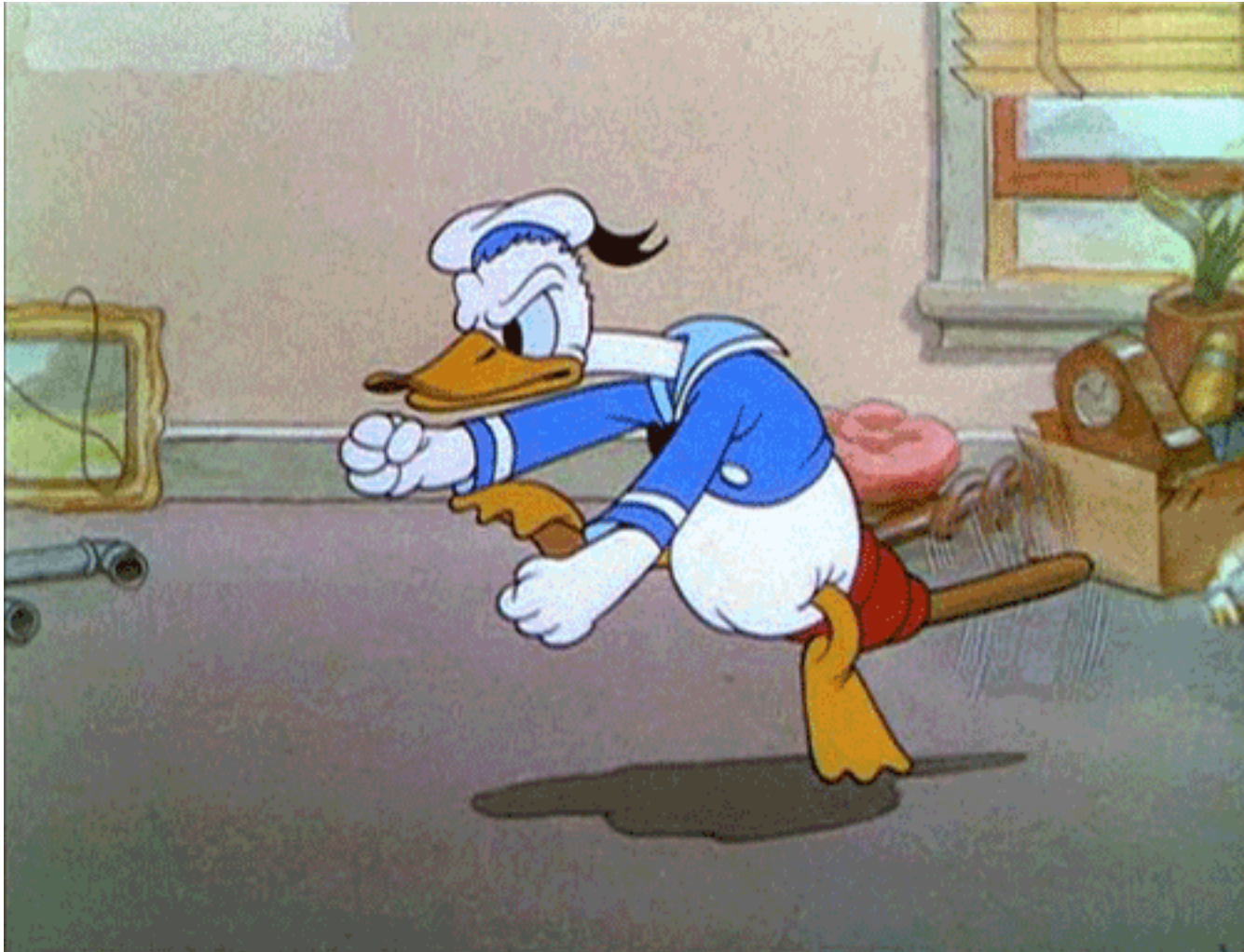
Installment sale

Financing (or “capital”) “lease”

Lease forms

Financing (or “capital”) “lease”

Operating lease



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

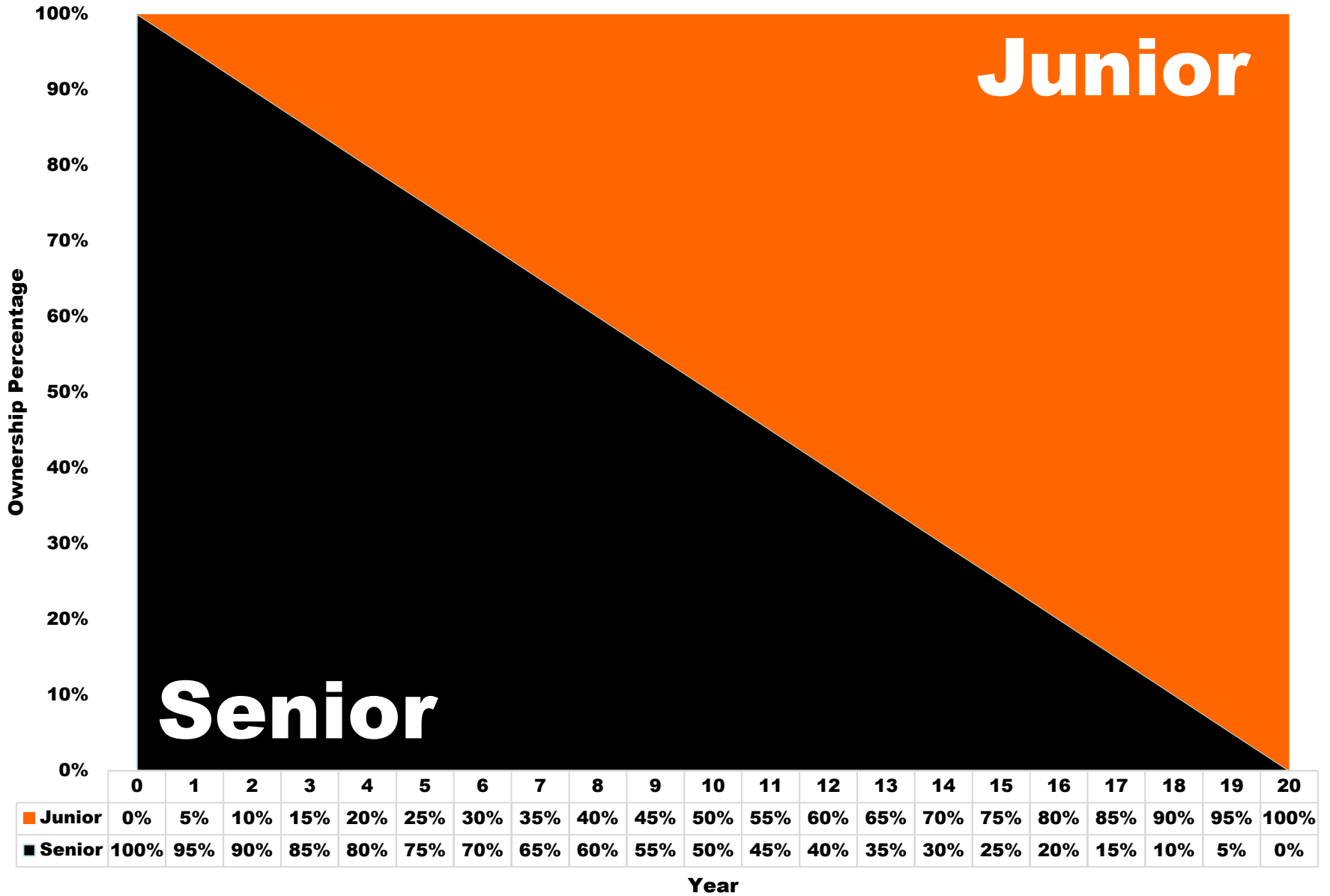
A partnership's potential payment limit is equal to the limit for a single person times the number of persons or legal entities that comprise the ownership of the joint operation plus any additional exemptions or exceptions. Adding a new member can provide one or two (with qualifying spouse) additional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

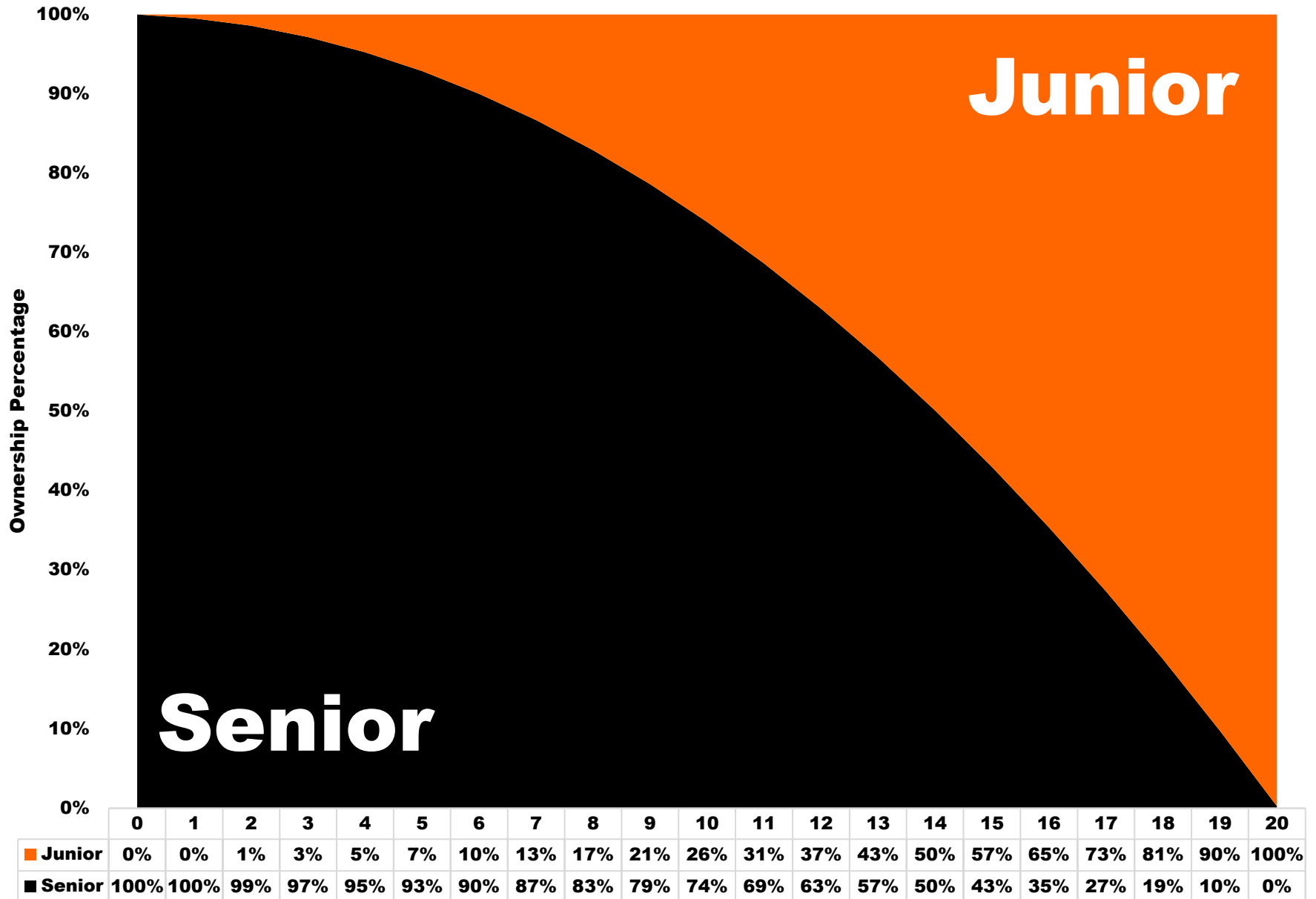
Single Payment Limit for a Corporation

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.

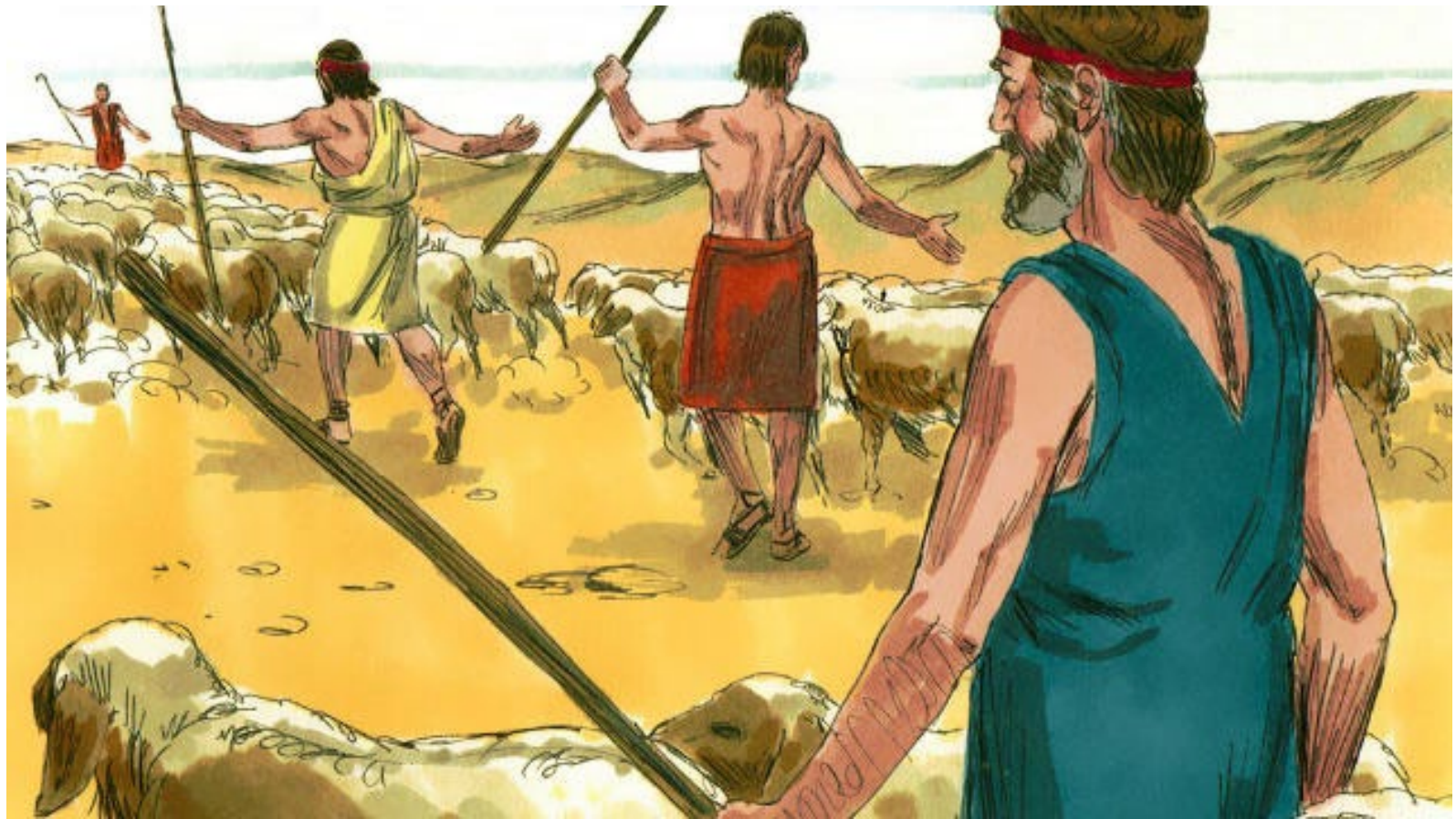
Twenty Year Ownership Buyout - Linear



Twenty Year Ownership Buyout - Exponential



The Laban-Jacob Herd Transition



Equipment depreciation and the treadmill



Management & decision-making



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



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



Liquidity of funds



To pre-nup or not to pre-nup



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?





**So how the heck do
we handle City Kid?**

So what do we do with City Kid?

- **Do we have a good inventory of farm and nonfarm assets?**
 - **2015 USDA data showed average nonfarm assets of \$600,000**
- **Has off-farm employment created investments that could be allocated to City Kid?**
- **Could life insurance be used to help balance the equation?**
 - **And could Farm Kid take out insurance on Ma and Pa to finance buyout?**
- **Take a hard look at who is paying for the transition.**

What if all we have are farm assets?

Spin-off ventures for City Kid

- **Are there spin-off ventures to give City Kid?**
 - **Agricultural enterprises that could be separated**
 - **Recreational leases**
 - **Minerals**
 - **Wind / solar / geothermal / energy storage**
- **Does City Kid have the management capability, and if not, who manages (and how will *they* be compensated)?**
- **How are uses coordinated with agricultural use of land?**

What if all we have are farm assets?

Farm Kid & City Kid as partners or shareholders

- **Farm Kid and City Kid as equal owners and partners (pause for laughter)**
- **City Kid as regular shareholder**
 - **Highest risk for City Kid (and arguably operation as a whole)**
 - **Only difference between Farm Kid and City Kid is involvement in day-to-day operations**
 - **City Kid better do homework & stay informed on all aspects of operation and industry**
 - **Relative share of holdings dictates voting power BUT beware of derivative actions and minority shareholder rights**
- **City Kid as preferred shareholder**
 - **Nonvoting shares/units BUT**
 - **Preferred shares/units MUST be paid distribution before any other classes**
 - **Clearly defined distribution policy and FFSC standards / audited financials essential**



What if all we have are farm assets?

Farm Kid & City Kid as partners or shareholders

- **Profits interest**

- **An ownership interest in entity with unique “strings attached”**
- **Has “hurdle value” – often value of company on date of issue; if company liquidates, profits interest holder only participates in value above that**
 - **Ex. 5% of value over initial value of \$10 million)**
- **Enables holder to participate in future appreciation and perhaps future profits**
- **Can be limited to liquidation value (in farming, HA!) or can encompass profits and liquidation value**
- **Again, audited financials essential**

- **Make guaranteed payments to City Kid**



What if all we have are farm assets? Farm Kid & City Kid as partners or shareholders

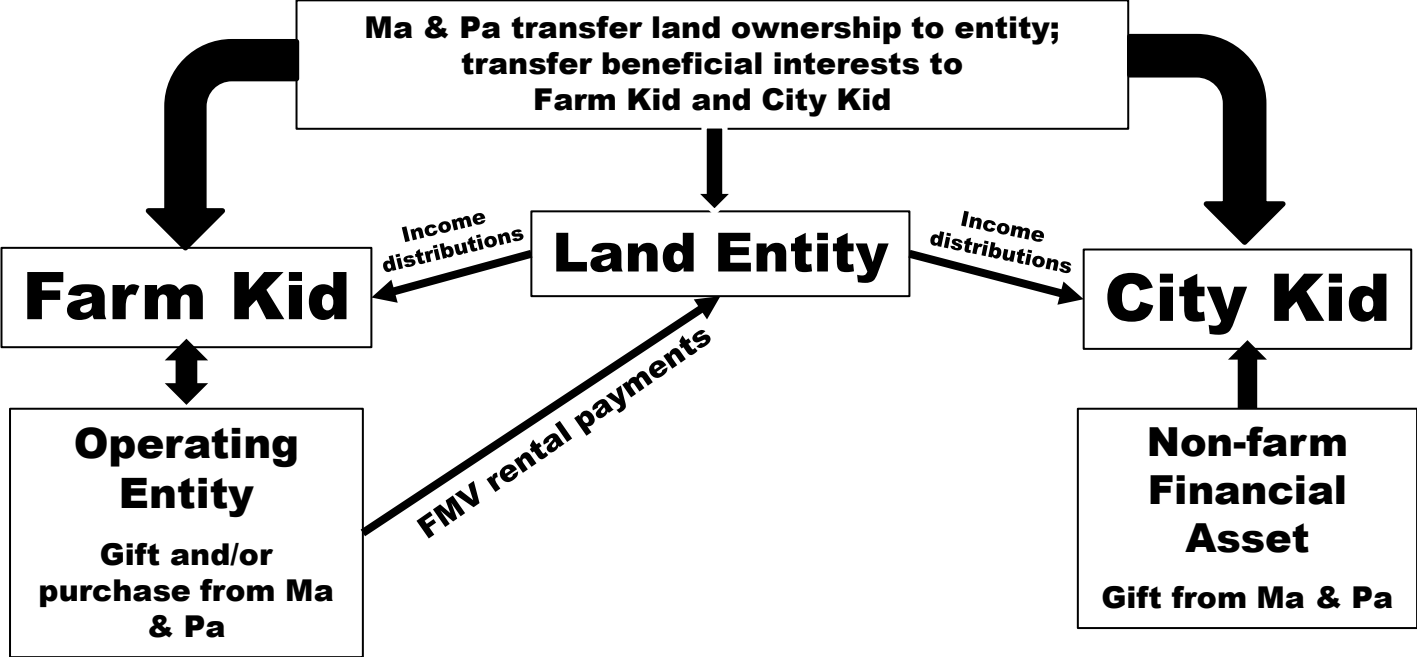
- **Make guaranteed payments to City Kid**
 - **IRC §707(c) allows payments to partner for services rendered *or* use of capital BUT**
 - **Payments must be made without regard to the income of partnership**
 - **Tradeoff is payments are deductible business expense of partnership (but are also subject to self-employment tax for City Kid)**

What if all we have are farm assets?

Farm Kid & City Kid as partners or shareholders

	Equal partners	Common shareholder	Preferred shareholder	Profit interest	Guaranteed payment
Steady, “risk free” payment to City Kid?	No	No	No	No	Yes
Payment made to City Kid even if business has a bad year?	No	No	No	No	Yes
City Kid actively engaged in management?	Yes	Yes	No	No	Maybe?
Payments to City Kid deductible by business?	No	No	No	No	Yes
City Kid’s tax treatment of payments received	Ordinary income	Ordinary income	Ordinary income	Ordinary income (profits), capital gains (liquidation)	Ordinary income

How do we handle agricultural land with Farm Kid and City Kid?



So what are our options for dividing up land?

- **Super radical concept: talk about it and agree before anyone dies.**
- **Try to balance financial value of farmland with all other non-farm assets.**
- **Physically divide farm parcels and give separate parcels to each kid.**
- **Partition!**

A walk through some land allocation scenarios

Four kids:

- Alice
- Bobby
- Carl
- David

Parcel	Appraised Value
1	\$100,000
2	\$200,000
3	\$300,000
4	\$400,000
Total value	\$1,000,000
Avg. val./child	\$250,000

Strategy 1:

Pick what you want, pay overage into estate fund

	Value of land received	Value above (below) average	Payment from (to) fund	Total value received
Alice	\$100,000	(\$150,000)	\$150,000	\$250,000
Bobby	\$200,000	(\$50,000)	\$50,000	\$250,000
Carol	\$300,000	\$50,000	(\$50,000)	\$250,000
David	\$400,000	\$150,000	(\$150,000)	\$250,000
Total value	\$1,000,000			\$1,000,000

Strategy #2: Internal Auction

Parcel	Winning bid	Winning bidder
1	\$ 75,000	Alice
2	\$ 225,000	Alice
3	\$ 275,000	Carol
4	\$ 425,000	David
Total	\$ 1,000,000	

Family member	Payment to fund	Payment from fund	Effective out-of-pocket payment
Alice	\$ 300,000	\$ 250,000	\$ (50,000)
Bobby	\$ -	\$ 250,000	\$ 250,000
Carol	\$ 275,000	\$ 250,000	\$ (25,000)
David	\$ 425,000	\$ 250,000	\$ (175,000)
Fund value	\$ 1,000,000		

Strategy (?) 3: Forced partition

Heirs property and the Uniform Partition of Heirs Property Act

- **Heirs property definition:**

- **Held as a tenancy in common,**
- **No written agreement governing the partition of the property,**
- **One or more of the cotenants acquired their title to the property through a relative, and**
- **One of the following:**
 - **20 percent or more of the interests are held by cotenants,**
 - **20 percent or more of the interests are held by persons who acquired title from a relative, or**
 - **20 percent or more of the cotenants are relatives.**

- **Notice of partition to fellow tenants & posting
Court to determine value of parcel; may order appraisal**

- **You're going to need the cash to buy immediately, and all sorts of wacky stuff *could* happen**

Step 4: Develop estate / gift plan



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**

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.

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

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

Items to be considered in creating revocable living trusts

1. Trustee

- Co-Trustee**
- Successor Trustee**

2. Beneficiaries

3. Duration of Trust

Items to be considered in creating revocable living trusts

4. Rights of Trustee

- Buy, sell and lease property



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

Controversial “hot take” by Ferrell

***Rigor mortis* makes you
an inflexible farm manager**

DEATH AND TAXES

The estate tax exemption ain't ever been \$600,000, and hasn't been close 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

The current estate tax landscape (2025)

- **Federal:**
 - **\$13,990,000 unified credit**
 - **\$27,980,000 million combined credit**
 - **40% marginal rate past exemption**
 - **Spousal portability retained**
 - **Stepped-up basis retained**
 - **\$19,000 / \$38,000 annual gift limit**
 - **NOT A WALL – “unified credit”**
- **Sunsets and ABCs**

Spousal Portability Example

- **2025 Estate Tax Exemption = \$13.99 million per individual**
- **Total estate value \$20 million**
- **50/50 value split between Dad and Mom**
 - **Dad's estate: \$10 million**
 - **Mom's estate: \$10 million**

Spousal Portability Example

- **Dad dies in 2025 with \$10.0 million in value assigned to his estate**

\$13.99 million credit

-\$10.00 million value

\$3.99 million remaining credit

\$0.00 taxable estate

Spousal Portability Example

- **Time passes, stuff appreciates big-time, and Mom dies December 30, 2025 with a \$17.98 million estate.**

\$17.98 million estate

-\$13.99 million credit

\$3.99 million taxable estate

Spousal Portability Example

- **Aha, but portability to the rescue!**

\$17.98 million estate
-\$13.99 million credit
-\$3.99 million remaining Dad credit

\$0.00 taxable estate

Figure 1. How an AB Trust Works, Step by Step

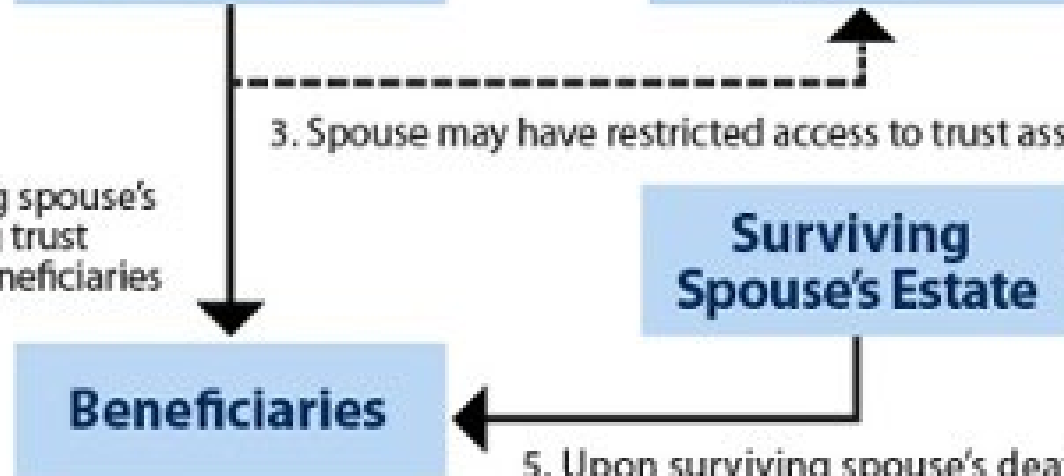
1. When first spouse dies, maximum amount that can be excluded under estate tax exemption is left to trust.



2. Remaining estate is left to surviving spouse. No estate tax due—unlimited marital deduction.

3. Spouse may have restricted access to trust assets.

4. Upon surviving spouse's death, remaining trust assets pass to beneficiaries estate tax-free.



5. Upon surviving spouse's death, remaining assets pass to beneficiaries. Only amount that exceeds surviving spouse's exemption amount is subject to estate tax.

Figure 1. How an AB Trust Works, Step by Step

1. When first spouse dies, maximum amount that can be excluded under estate tax exemption is left to trust.

Estate valued at \$25 million at time of first death

2. Remaining estate is left to surviving spouse. No estate tax due—unlimited marital deduction.

\$13.99 million credit shelter

\$11.01 million to spouse

3. Spouse may have restricted access to trust assets.

4. Upon surviving spouse's death, remaining trust assets pass to beneficiaries estate tax-free.

Surviving Spouse's Estate

Beneficiaries

5. Upon surviving spouse's death, remaining assets pass to beneficiaries. Only amount that exceeds surviving spouse's exemption amount is subject to estate tax.

Why you don't have to be afraid of lifetime gifts

Parent gifts \$250,000 of property to Kid.

\$ 250,000 gift

- \$ 19,000 gift tax exemption (2025)

\$ 231,000 potential taxable gift... BUT

Taxable gift eliminated by estate tax exemption

\$ 13,990,000 estate tax exemption (2025)

- \$ 231,000 potential taxable gift

\$ 13,759,000 remaining estate tax exemption

(Currently, no “claw back rule” exists)



Wanna get nuts?! Let's get nuts!

Parent gifts \$14,009,000 of property to Kid.

\$ 14,009,000 gift

- \$ 19,000 gift tax exemption (2025)

\$ 13,990,000 potential taxable gift... BUT

Taxable gift eliminated by unified credit

\$ 13,990,000 estate tax exemption (2025)

- \$13,990,000 potential taxable gift

\$ 0 remaining estate tax exemption

BUT ALSO

\$ 0 estate tax due



OK, Ferrell, what happens on January 1, 2026 if Congress does nothing?

- TCJA sunset date: December 31, 2025
- If sunset occurs:
 - Estate tax exemption amounts snap back to the pre-TCJA amount of \$5,500,000
 - Inflation adjusted to the present
- If adjusted today, exemption amount would be \cong \$7,039,000 / \$14,078,000

Figure 1. How an AB Trust Works, Step by Step

1. When first spouse dies, maximum amount that can be excluded under estate tax exemption is left to trust.

Estate valued at \$25 million at time of first death

2. Remaining estate is left to surviving spouse. No estate tax due—unlimited marital deduction.

\$7.04 million credit shelter

\$17.96 million to spouse

3. Spouse may have restricted access to trust assets.

4. Upon surviving spouse's death, remaining trust assets pass to beneficiaries estate tax-free.

Surviving Spouse's Estate

Beneficiaries

5. Upon surviving spouse's death, remaining assets pass to beneficiaries. Only amount that exceeds surviving spouse's exemption amount is subject to estate tax.

Figure 1. How an AB Trust Works, Step by Step

1. When first spouse dies, maximum amount that can be excluded under estate tax exemption is left to trust.

Estate valued at \$25 million at time of first death

2. Remaining estate is left to surviving spouse. No estate tax due—unlimited marital deduction.

\$7 million credit shelter

\$18 million to spouse

3. Spouse may have restricted access to trust assets.

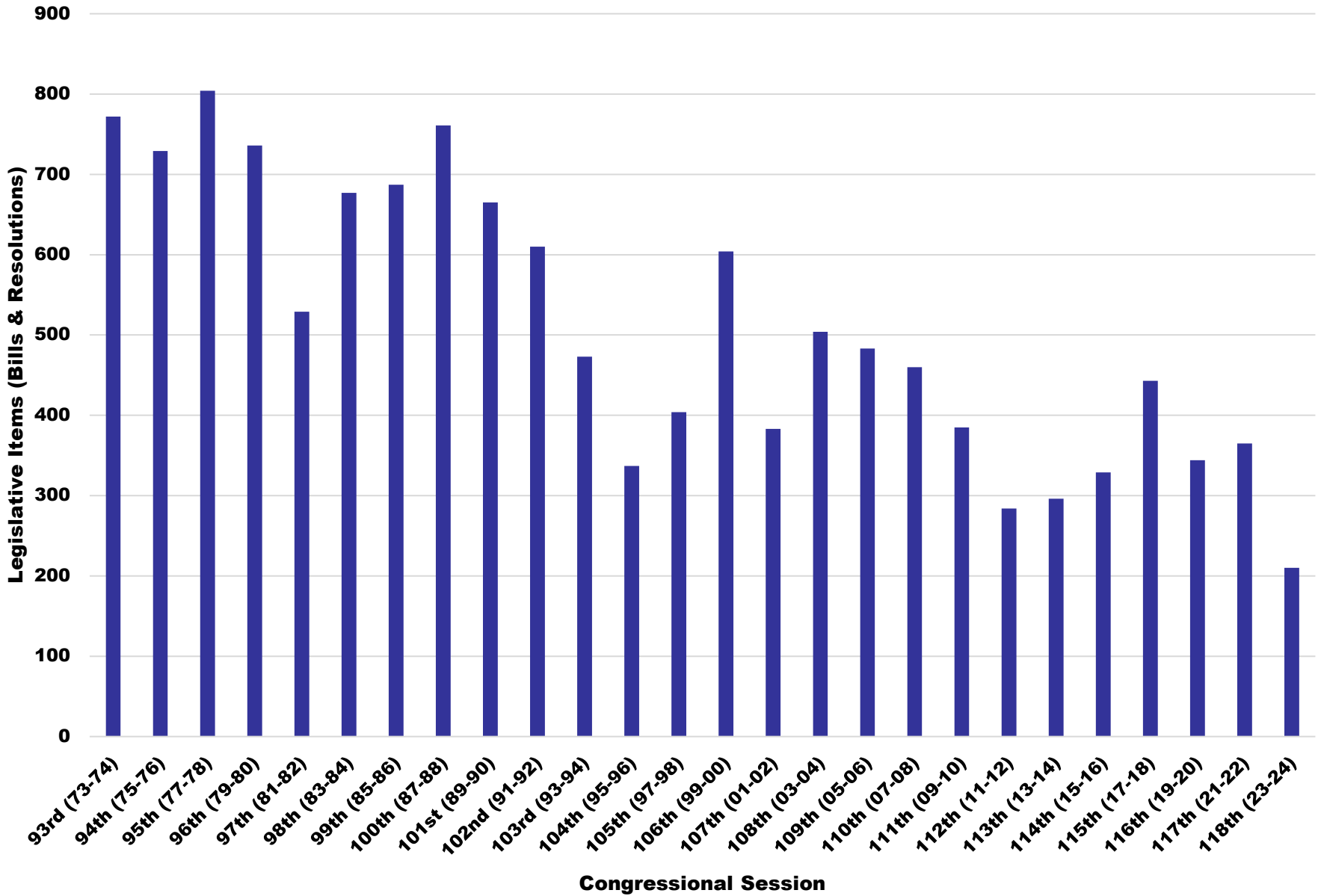
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Surviving Spouse's Estate

Beneficiaries

5. Upon surviving spouse's death, remaining assets pass to beneficiaries. Only amount that exceeds surviving spouse's exemption amount is subject to estate tax.

Enacted Legislation by Congress, 1973-2024



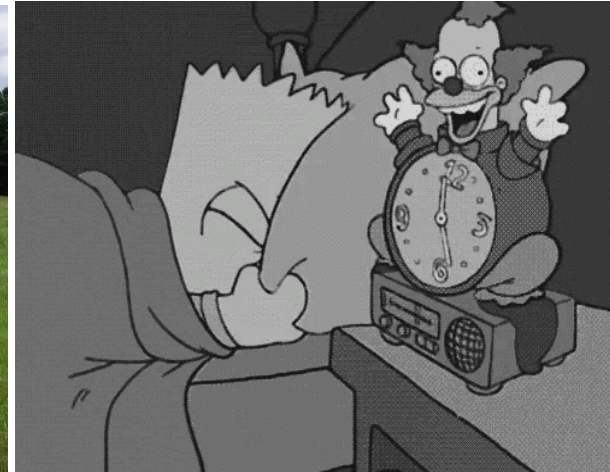


THIS IS
FINE

The “hit by a _____” plan



Step 5: Deploy your plans / evaluate / revise



Leonid and lawyers



VLADISLAV ROGOZOV

Don't go it alone



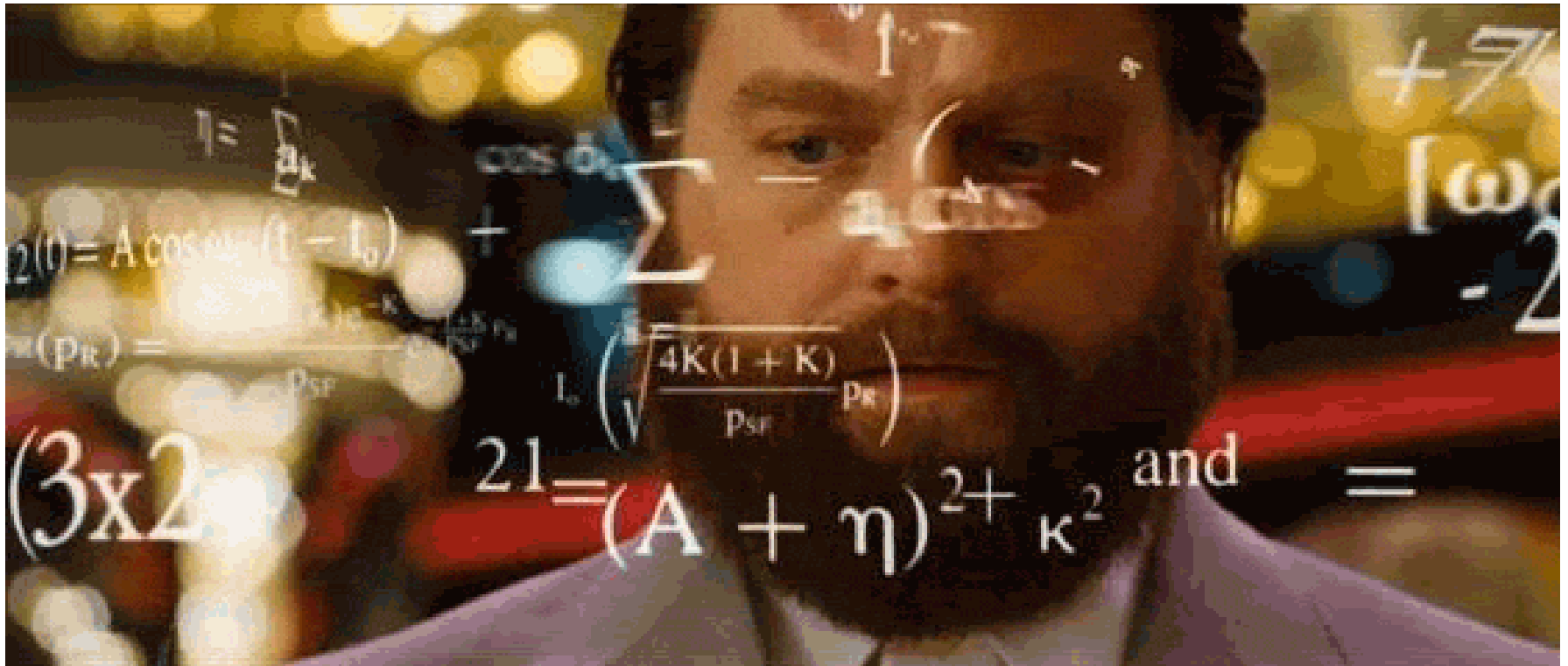
The transition team: The Accountant



The transition team: The Attorney



The transition team: The Production Consultant



The transition team: The Investment Advisor



The transition team: The HR Advisor



The transition team: The Referee



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



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**







You *can* reap what you sow

For more information

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

and search “farm transitions”

[**shannon.l.ferrell@okstate.edu**](mailto:shannon.l.ferrell@okstate.edu)

[**@shanferrell**](#)