



How Do We Manage a Generational Shift in Agriulture?

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Dr. Shannon L. Ferrell, Professor of Agricultural Law, OSU Department of Agricultural Economics

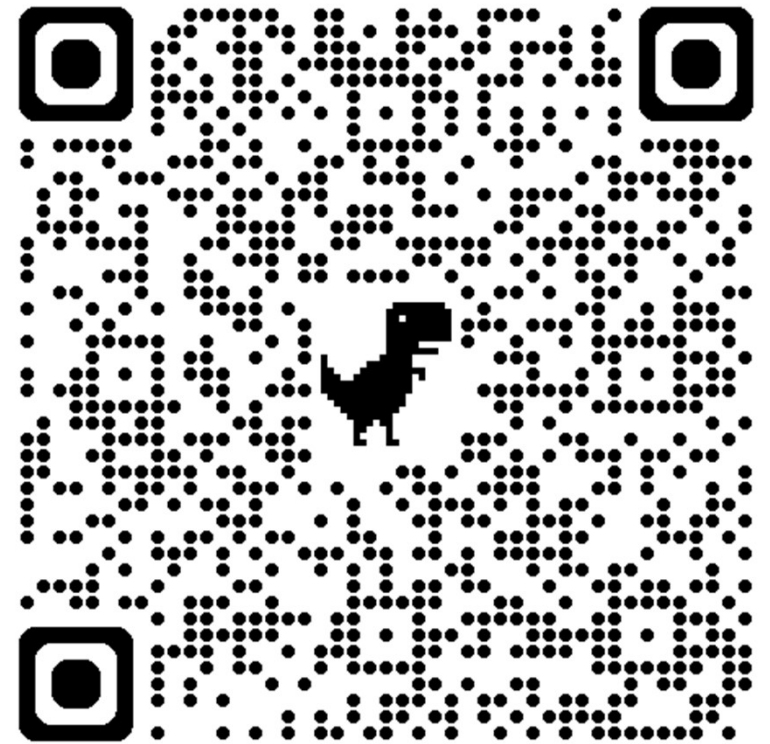

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And now, a word about maintenance



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The unique challenges of farm transition planning

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%
Vacation 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 and 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%



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Leading causes of business failure after a generational transfer

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

Source: Spafford, 2006



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A failure to plan is a plan to fail

Slam dunk without-a-doubt

- Guardian nomination for minor children
- Beneficiary designations
- Durable powers of attorney
- Advanced directive for health care
 - Medical Power of Attorney
 - Living Will
 - DNR
- Long-term care plan
- Will

And you really need to think about

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



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Why “split it down the middle” *doesn't work.*

KFMA South Central Association Farms by “thirds” (acres operated)

	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	



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The strategies

- 1. Farm Kid & City Kid get undivided interest in all farm assets (City Kid buyout).**
- 2. Farm Kid gets all operating assets, City Kid gets financial instrument of equal value, both share ownership of farmland.**
- 3. Farm Kid buys out Mom and Dad's equity in operating assets while alive.**



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Probability of Strategy 1 success across all modeled farms

0.00%

WHAT'LL IT COST, MAN?



WHAT'LL IT COST?

memegenerator.net

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

Operation with \$3.755 million in assets and average NFI of \$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 or \$145,864 w/o down pmt.
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



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The Country Mouse and the City Mouse

A retelling of Aesop's Fable by Eric Blair



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, 5/12/24 (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)



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**Historical average returns
to agricultural land**

~~**11.5%**~~

5.2%

Source: Kastens, 2001

**Historical average returns
of S&P 500**

10.1%

Source: Investopedia, 2024



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The value of transition planning

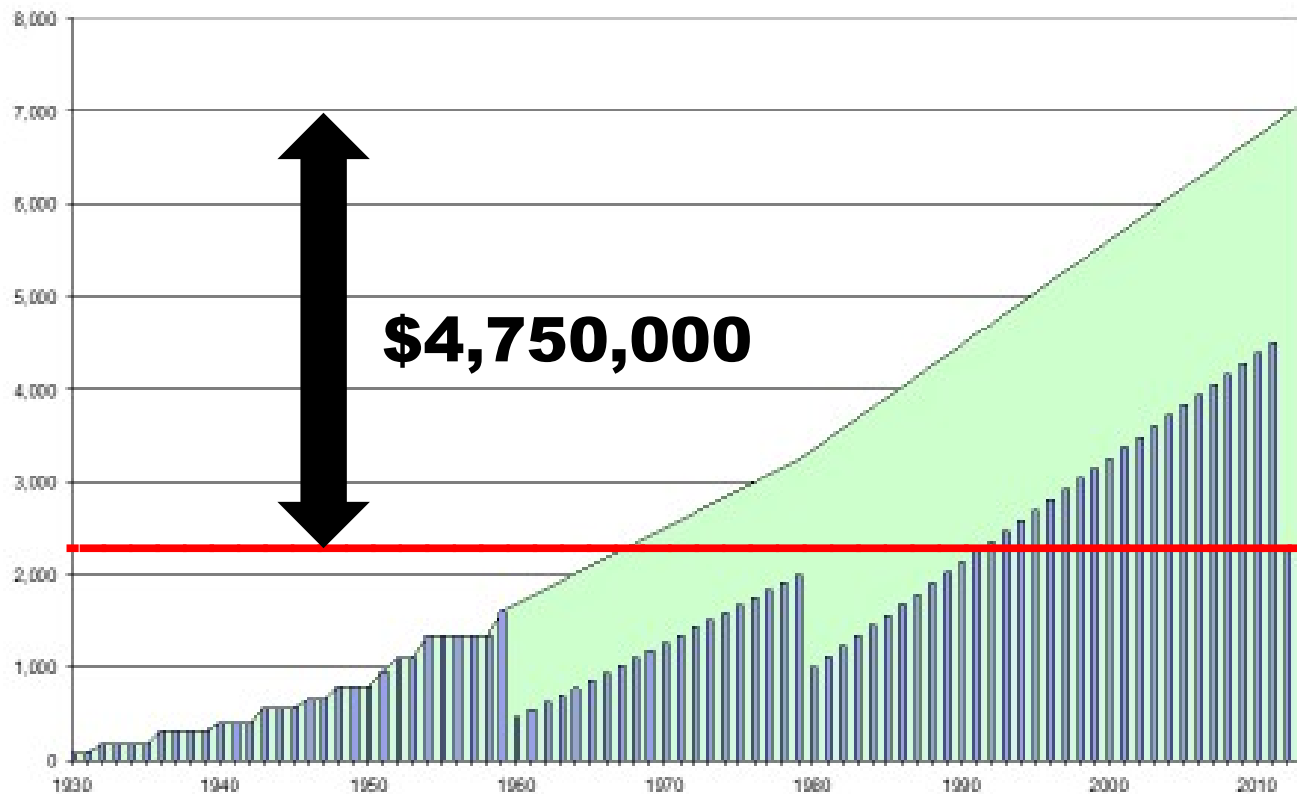


Illustration courtesy Dick Wittman, Wittman Consulting



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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.
- Estate strategies don't have to care about business success (though they should probably care about contests).
- Business transition strategies have to account for the economic interests of the parties involved.



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Five steps forward:
A practical approach to keeping
the farm *and* the family together

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



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Step 1: INVENTORY

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



Step 2: TALK





Clint Fischer  @clintwfischer · 8h



If the goal for your kids is conflict, in-fighting,
and eventually never speaking to each other...

I'm convinced there's no better way than to die
without ever tackling your estate plan.

Or, without communicating the plan while
alive.

Entitlement & assumptions are real.



18



11



106



13K



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YOU GOTTA FIGHT FOR YOUR RIGHT



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

A close-up photograph of a man with dark hair and a serious, slightly furrowed brow. He is looking slightly to the left. The background is a plain, light-colored wall.

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

Principles-based transition planning

1. Relationships first
2. Profitability matters
3. What is a gift is a gift, what is earned is earned
4. Equity, not equality
5. Participation in the business is an earned opportunity, not an entitlement
6. Participation requires preparation
7. People deserve a chance to profit from their contributions
8. There can be no reward without risk
9. Wealth without wisdom is a curse
10. Transparency is key to trust
11. Emotional connections matter
12. Choice in all things

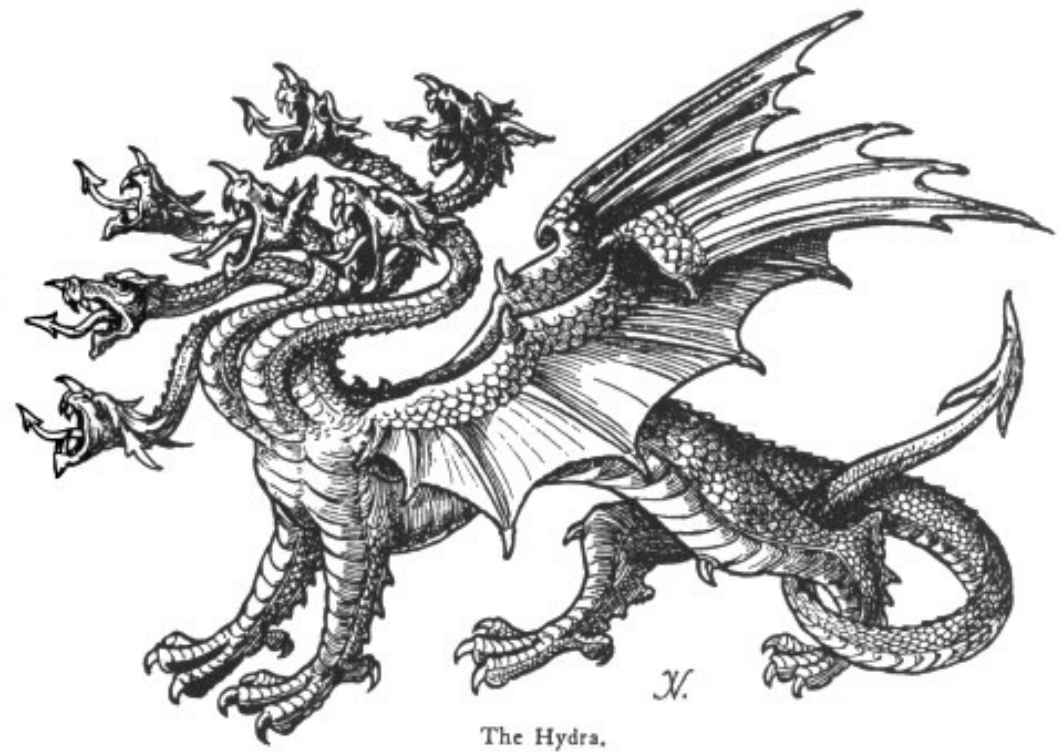


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Step 3: PLAN



Let's talk MANAGEMENT



Let's talk BUY-SELL



Let's talk LIQUIDITY



Let's talk PRENUP



Step 4: Will



Are there options for the completely separate treatment of Farm Kid and 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.



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What if all we have are farm assets? Farm Kid & City Kid as Partners

- 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?
- How are uses coordinated with agricultural use of land?

What if all we have are farm assets? Farm Kid & City Kid as Partners

- Farm Kid and City Kid as equal owners and partners (pause for laughter)
- 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



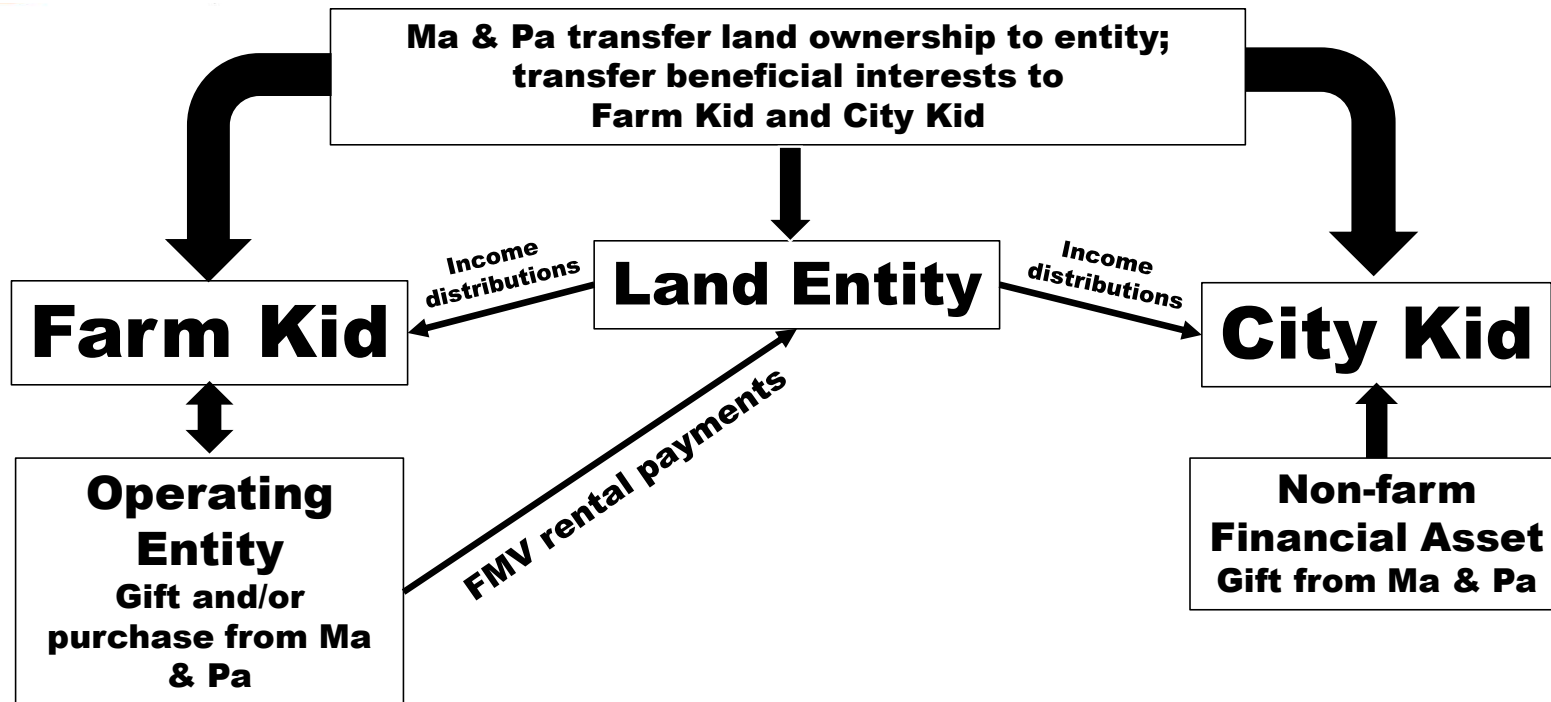
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What if all we have are farm assets? Farm Kid & City Kid as Partners

- 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)



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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!



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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 received	Value above (below) average	Payment from (to) fund	Effective 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



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Strategy 2: Internal Family 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		



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Strategy (?) 3: Forced partition

Heirs property and the Uniform Partition of Heirs Property Act

- Heirs property (§23A.002(5))
 - 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 (§23A.004)
- Court to determine value of parcel; may order appraisal (§23A.006)



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Heirs property and the Uniform Partition of Heirs Property Act

- Right of first refusal for all cotenants EXCEPT petitioner (§23A.007)
 - One cotenant can buy all cotenant interests
 - If more than one cotenant wishes to buy, proportionate buyout
 - If all of the interests are not purchased, court orders partition in kind unless doing so would result in “manifest prejudice to the cotenants as a group.” (§§ 23A.008, 23A.009)
- If court orders a sale, must be open market sale unless court finds sealed bids or auction would be economically advantageous to the cotenants as a group (§23A.010)



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Items to be considered in creating revocable living trusts – with an ag twist

1. Trustee

- Co-Trustee
- Successor Trustee
- Time, talent, and temperament

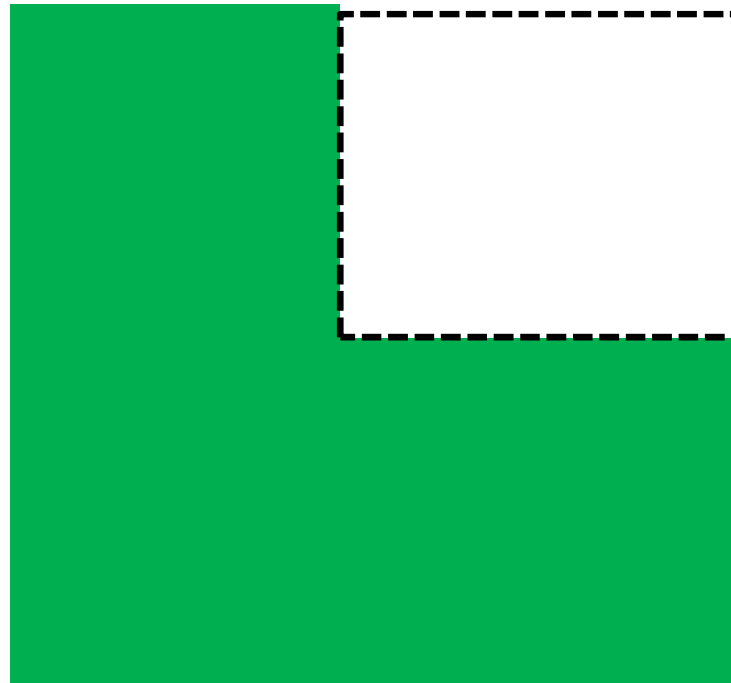
2. Beneficiaries

3. Duration of Trust



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Items to be considered in creating revocable living trusts – with an ag twist



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Items to be considered in creating revocable living trusts – with an ag twist

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



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Hot take by Ferrell on ag trust restrictions

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



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The current estate tax landscape (2025)

Federal:

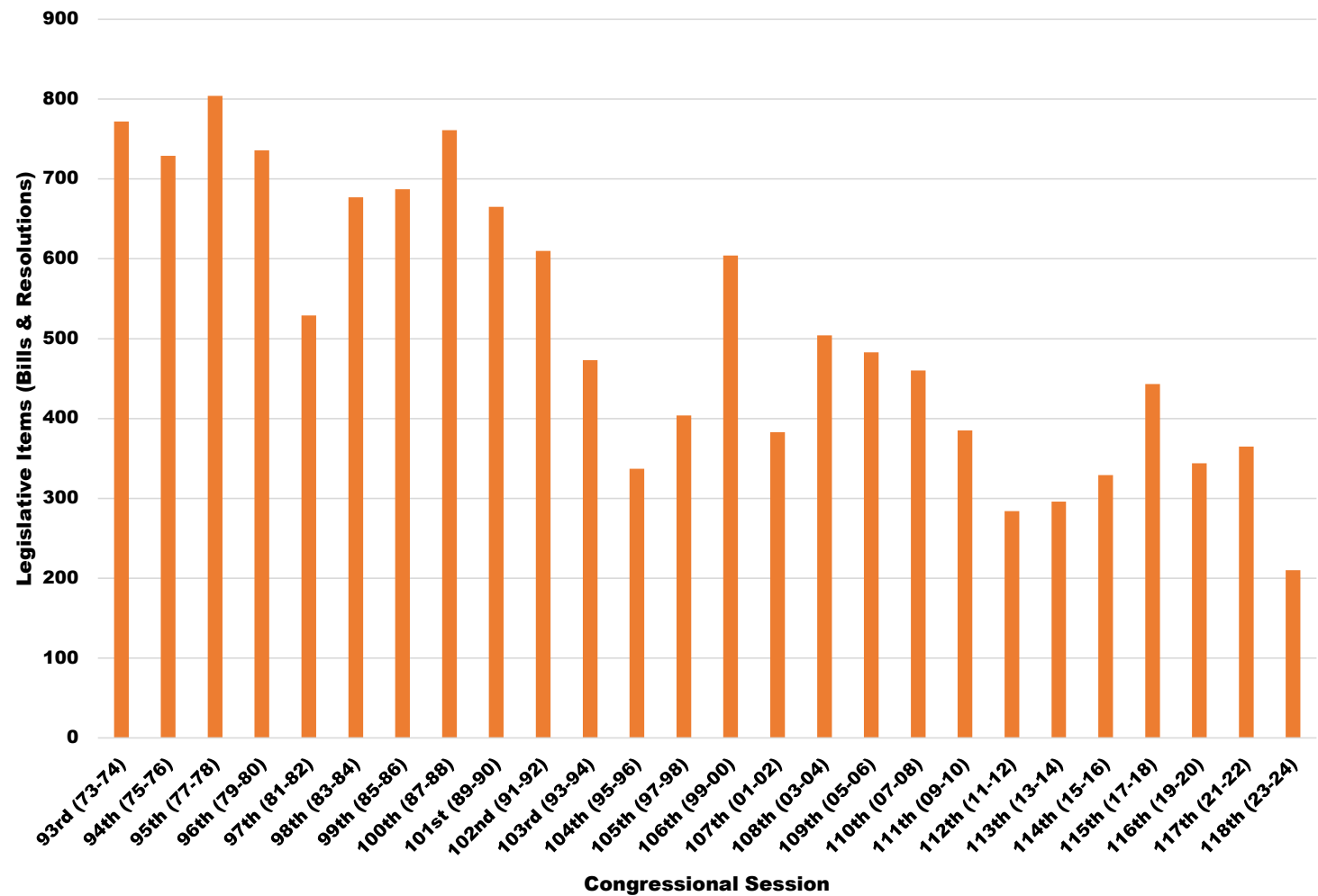
- \$13,990,000 unified credit
- \$27,980,000 million combined credit
- 40% marginal rate past exemption
- Spousal portability retained
- Stepped-up basis retained
- \$19,000 / \$38,000 annual gift limit
 - NOT A WALL – “unified credit”

Sunsets and ABCs



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Enacted Legislation by Congress, 1973-2024





Step 5: Don't stop



The Accountant



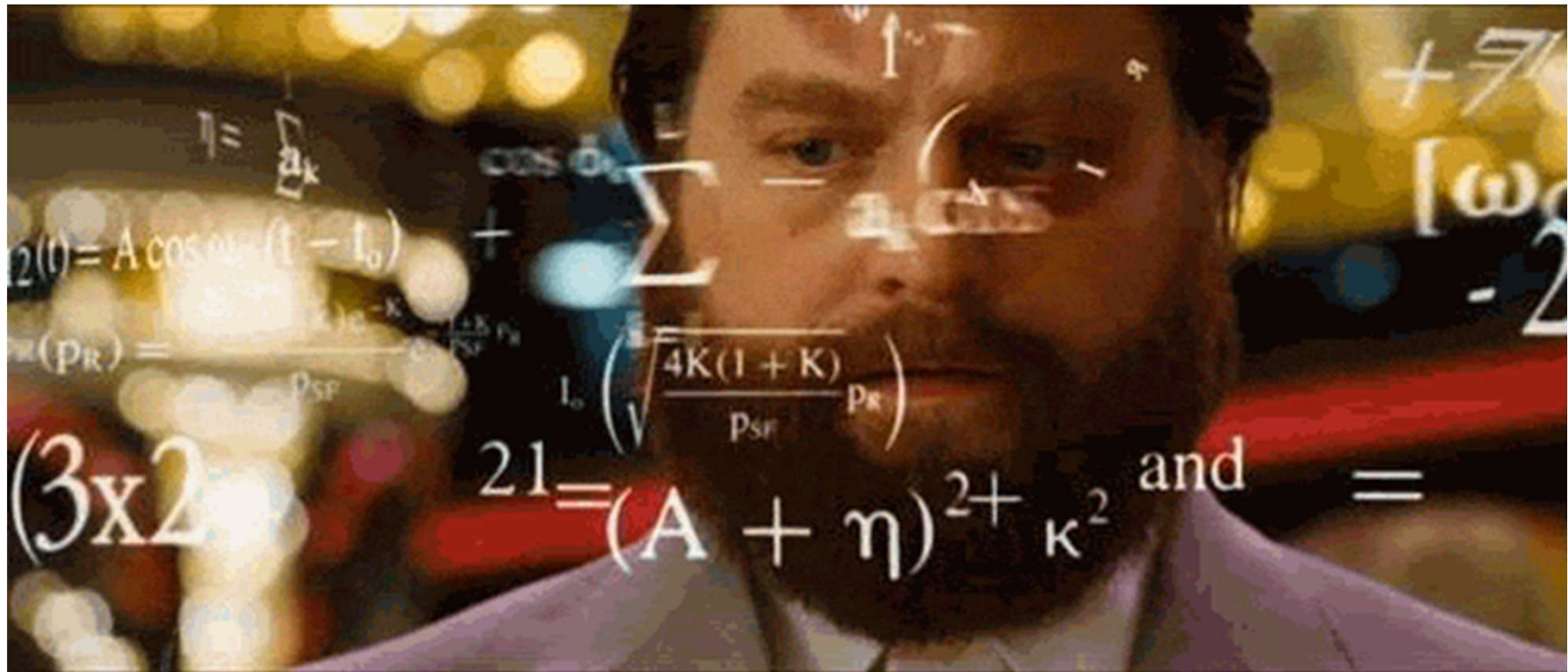
The Attorney



The Investment Advisor



The Farm Management Consultant



The Human Resources Advisor



The Referee



Conclusions

- Farm transitions take waaaaaaaay more than estate planning
- Take care of farm businesses
- Take care of farm families
- Take care of yourself



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Shanon L. Ferrell, J.D., M.S.

Department of Agricultural Economics

Mobile | 405.742.2575

E-mail | shannon.l.ferrell@okstate.edu

349 Agriculture Hall, OSU
Stillwater, OK 74078

agecon.okstate.edu

