

The Farm Transition Process and Its Implications for American Agriculture

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With grateful acknowledgement to



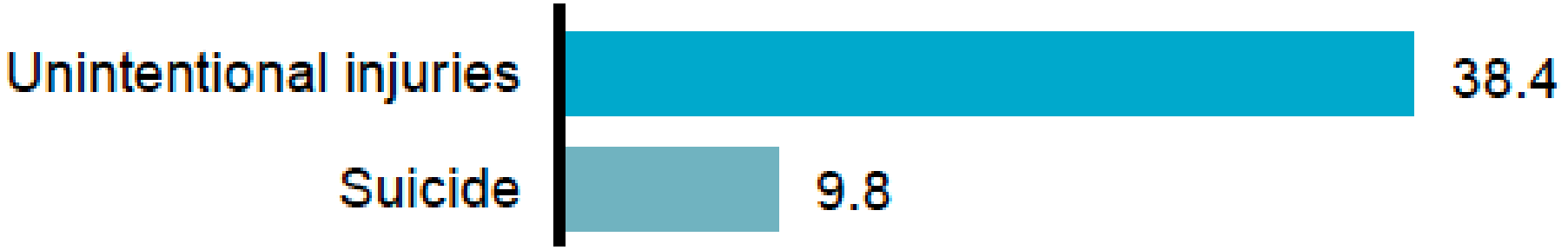


Department of Agricultural Economics

"If I have seen further, it is by standing on the shoulders of giants."
Sir Isaac Newton

OSU EXTENSION

Ages 25–44



Ages 45–64



Source: CDC National Vital Statistics Reports 74:10, September 16, 2025

Think about it this way:

A risk event with a *100%* probability of occurrence is coming.

You cannot know WHEN it will happen but it WILL happen.

The event will immediately delete *50%* of your operation's asset value.

HOWEVER, if you take the right risk mitigation measures, there will be *0%* loss of asset value.

The risk mitigation measures would cost *0.5%* of the asset value.

Should you take the risk mitigation measures?

If so, when should you take them?

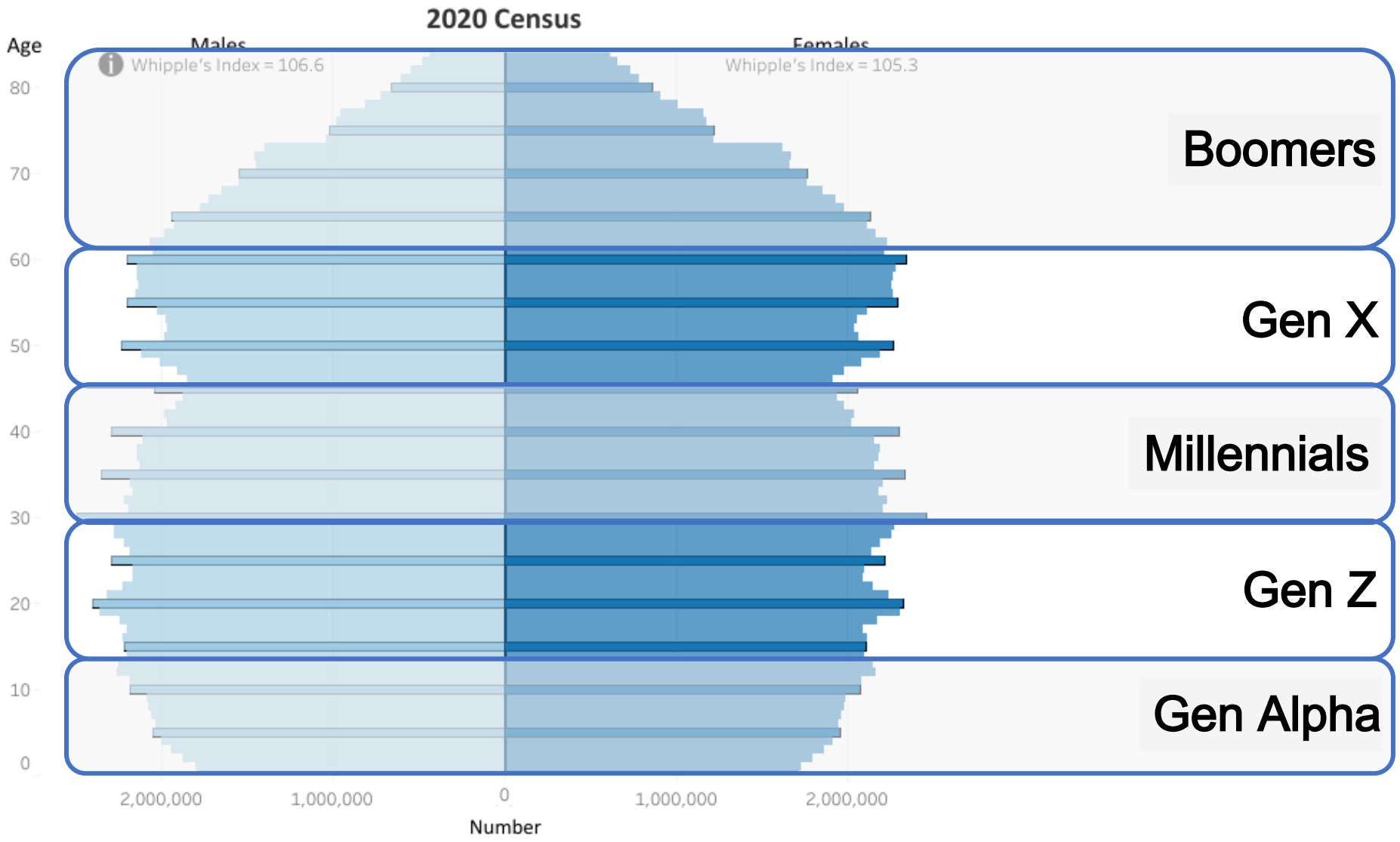
Age-Sex Pyramid for the United States

(Aged 0 to 84. Outlined bars represent ages ending in "0" or "5")

2020 Census

Show history

Press play to watch the pyramid change



United States Census Bureau

U.S. Department of Commerce
U.S. CENSUS BUREAU
census.gov

Source: 1980 Census Summary File 2C (SF2C), 1990 Census Summary File 2C (SF2C), Census 2000 Summary File 1 (SF1), 2010 Census Summary File 1 (SF1), 2020 Census Demographic and Housing Characteristics File (DHC)

This is not an “ *if*” question, it’s a “ *when*” question.

When is unknown and unknowable...

...so the only rational choice is to act now.

Not acting is a choice...

... and what you’re choosing is a *broken operation* and a *broken family*.

So let’s get started TODAY - because SOMEDAYain’t on the calendar.

OSU EXTENSION

EXTENSION

The unique challenges of farm and ranch succession

Why is this farm and ranch 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 Ranchers

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%



EXTENSION

The Farm Kid / City Kid Conundrum, and why "split it down the middle" *doesn't work*.

A winter wheat / cow-calf operation

Kansas Farm Management Association South Central Association Data

Asset class	Value
Breeding Livestock	$56,602
Machinery & Equipment	$1,012,499
Buildings	$82,894
Land	$2,603,650
Total Assets	$3,755,645
Avg. Net Annual Income	$169,059

69% of total asset value

Probability the operation can survive a
“split it down the middle” strategy
on its own revenues:

0.00%

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, commercial lending	Ranch Kid	$375,565 down; $198,359; $97,528
Buy out City Kid, family loan	Ranch Kid	$375,565 down; $101,443 or $145,864 w/o down pmt.
Op. assets to Ranch Kid, "share" land; investment	Ma & Pa	$33,901
Op. assets to Ranch Kid, "share" land; life ins.	Ma & Pa	$20,987
Ranch Kid buys op. assets	Ranch Kid	$53,455

			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
Dividend (NFI distrb .)	Average annual ROI	20 year FV, S&P 500 avg.	Value compared to ref. investment	20 year FV, 20 year U.S. Treas.	Value compared to ref. investment
50%	4.51%	$4,986,722	($8,165,448)	$2,720,036	($2,016,039)
33%	3.01%	$3,324,481	($9,827,689)	$1,813,357	($2,922,717)
25%	2.25%	$2,493,361	($10,658,809)	$1,360,018	($3,376,056)

People with incompatible financial incentives and/or values should NOT do business together…

…so don't force them to do business together.

If your family IS going to do business together:

Make sure their VALUES are aligned.

Make sure their FINANCIAL INCENTIVES are aligned.

The value of transition planning

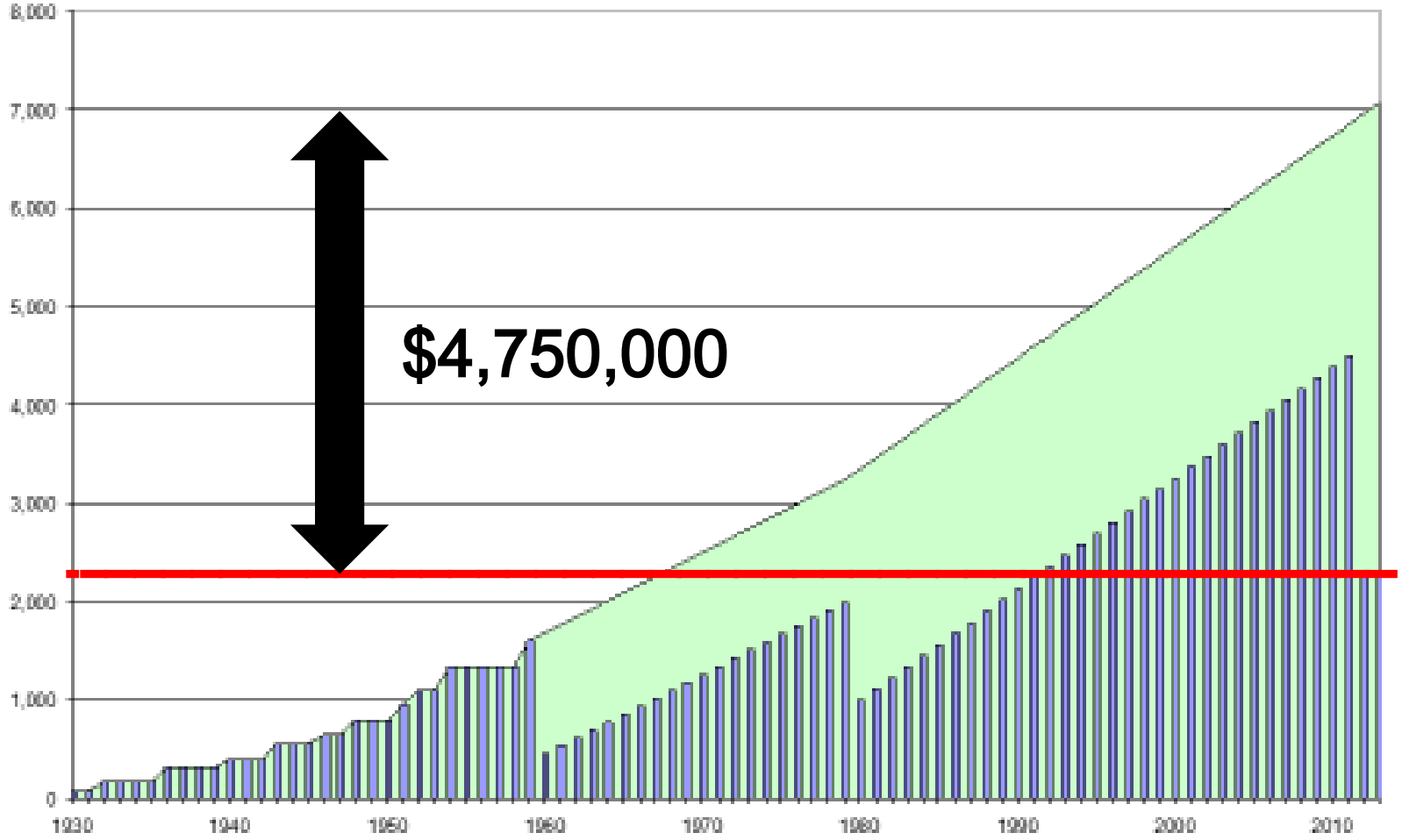
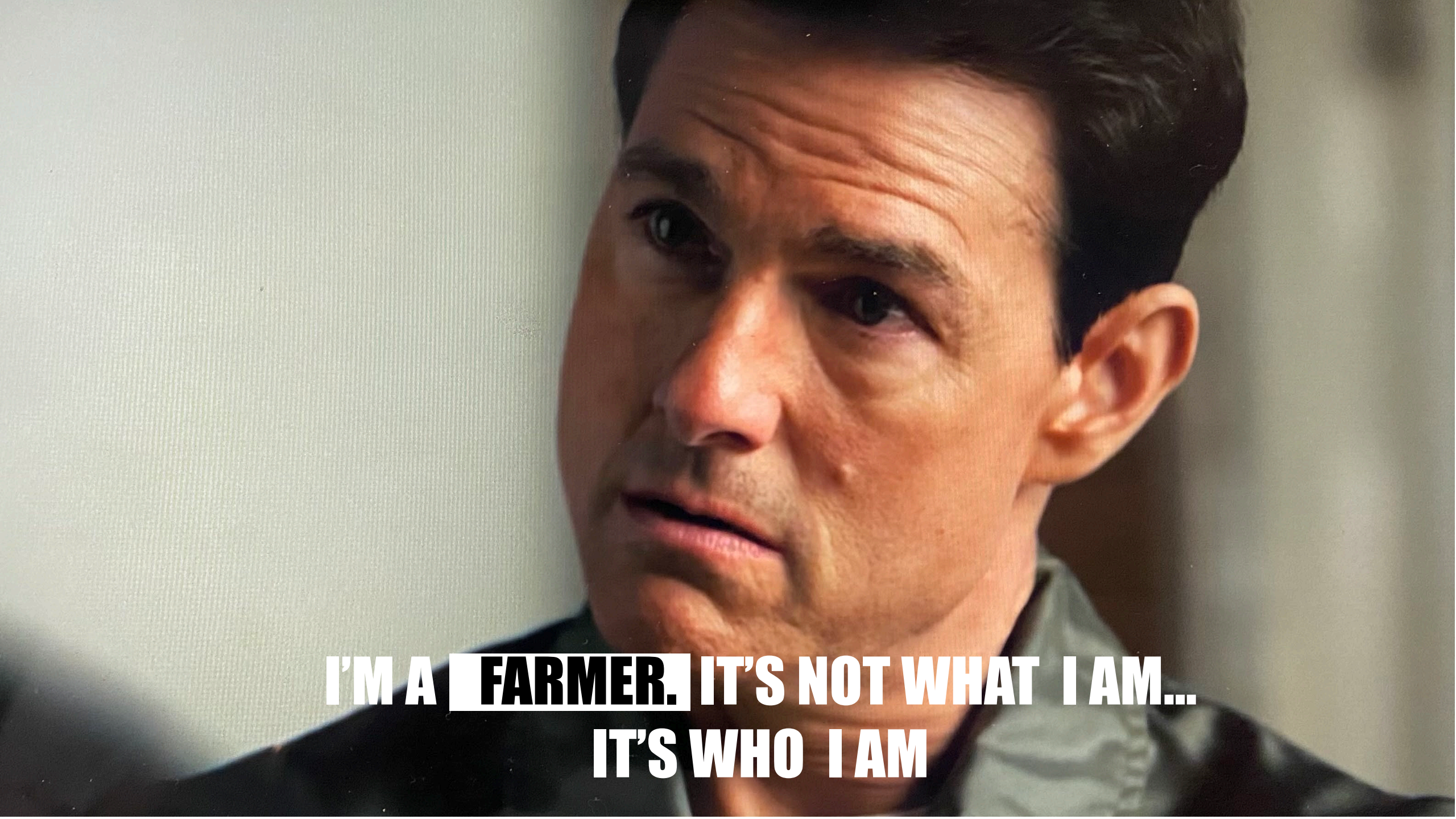


Illustration courtesy Dick Wittman, Wittman Consulting

EXTENSION


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

EXTENSION

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

Step 1: INVENTORY

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




Step 2:
TALK

Do you believe every stakeholder has a right to a respectful succession conversation?

Are there reasons you are afraid to have that conversation?


YOU GOTTA FIGHT
FOR YOUR RIGHT
TO TALK TRANSITION
WITH YOUR FAAAAAAAAAAAAMILY

The Prelude:

“ I want to set a path to the future of this ranch.”

The Two Big Questions:

“What is your vision of the future of this ranch?”

“What role do you see for yourself in that future?”

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

Principles-based transition planning

Thou shalt not make someone
go through something
just because
YOU went through it.

The environment

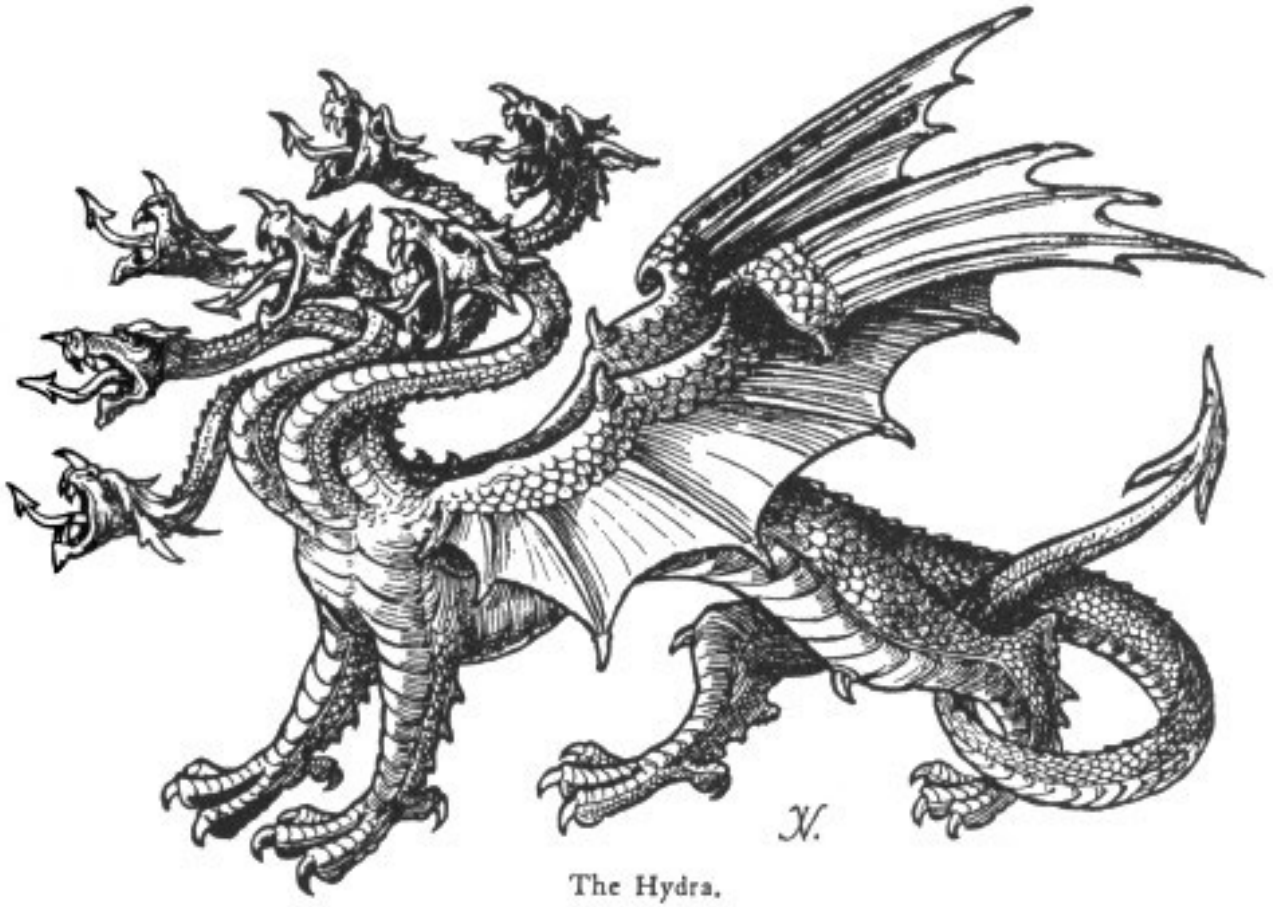


Step 3:PLAN



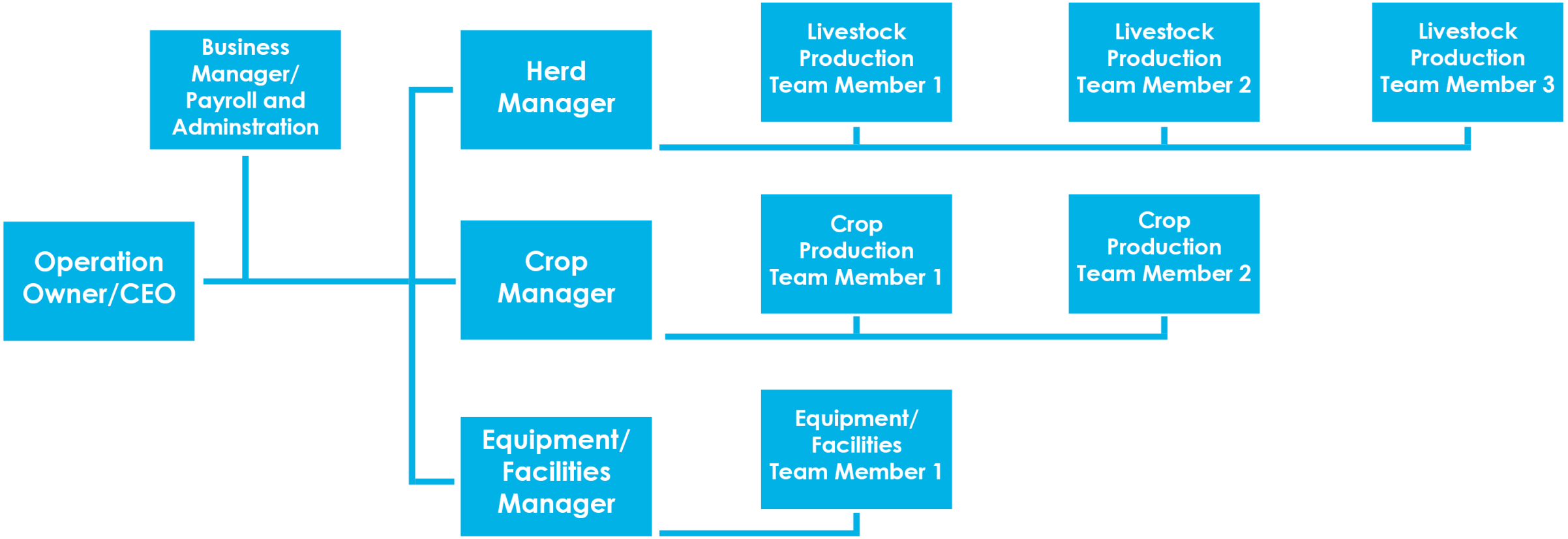
Let's talk management





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Let's talk organization



Let's talk transfers

- Sell it
- Lease it
- Move it through an entity
- Give it

Twenty Year Ownership Buyout - Linear



	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Junior	0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%	55%	60%	65%	70%	75%	80%	85%	90%	95%	100%
Senior	100%	95%	90%	85%	80%	75%	70%	65%	60%	55%	50%	45%	40%	35%	30%	25%	20%	15%	10%	5%	0%

Year

Twenty Year Ownership Buyout - Exponential



	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Junior	0%	0%	1%	3%	5%	7%	10%	13%	17%	21%	26%	31%	37%	43%	50%	57%	65%	73%	81%	90%	100%
Senior	100%	100%	99%	97%	95%	93%	90%	87%	83%	79%	74%	69%	63%	57%	50%	43%	35%	27%	19%	10%	0%

Twenty Year Ownership Buyout - Stepwise



	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Junior	0%	0%	0%	0%	20%	20%	20%	20%	40%	40%	40%	40%	60%	60%	60%	60%	80%	80%	80%	80%	100%
Senior	100%	100%	100%	100%	80%	80%	80%	80%	60%	60%	60%	60%	40%	40%	40%	40%	20%	20%	20%	20%	0%

Let's talk about keeping it all in the family (or not)



EXTENSION

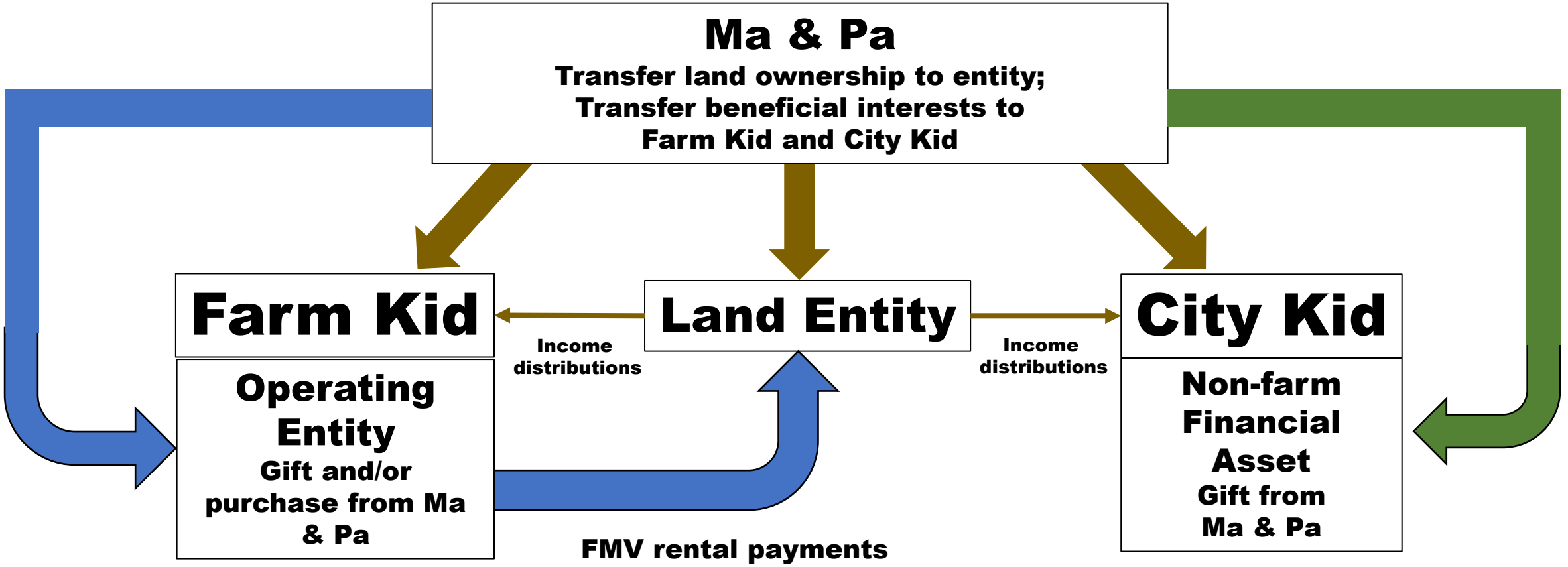
Let's talk valuation



EXTENSION

Let's talk liquidity




Ma & Pa
Transfer land ownership to entity;
Transfer beneficial interests to
Farm Kid and City Kid
Farm Kid
Land Entity
City Kid
Income distributions
Income distributions
Operating Entity
Gift and/or purchase from Ma & Pa
Non-farm Financial Asset
Gift from Ma & Pa
FMV rental payments

Tax considerations for lifetime sales of assets

- Carefully evaluate what assets to sell.
- Sale must be an arms length transaction.
- Asset's FMV and adjusted basis (cost - depreciation) are key to determine gain or loss (tax treatment).
- Gain is taxed (income tax).
- Loss is suspended (parent loses deduction).
- Each asset's gain or loss is kept separate.

Assets sold at a gain

- Sold at a gain:
  Sale price > than adjusted basis
  Gain = sale price - adjusted basis.
- Gain from depreciation recapture is ordinary income.
- If sale price > greater than cost, sale price - cost = capital gain.

Assets sold at a loss

- Sold at a loss:
  Sale price < than adjusted basis
  Loss = sale price - adjusted basis.
- Amount of loss not deductible for the parent.
- Amount of loss will offset taxable gain when child sells the asset.

Tax treatment for the recipient of the gift

- Recipient's tax basis in the assets can be depreciated.
- Asset basis is increased for the amount of gift tax as calculated for the parent.
- Be sure to carefully evaluate tax consequences.
- It's possible that conditions dictate it may be better to lease the asset rather than gift or sell.

Selling assets

- Carefully evaluate what assets to sell.
- Sale must be an arms-length transaction.
- Asset's FMV and adjusted basis (cost - depreciation) are key to determine gain or loss (tax treatment).
- Gain is taxed (income tax).
- Loss is suspended (parent loses deduction).
- Each asset's gain or loss is kept separate.

Step 4: Will



The critical estate toolkit

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*
- Prenuptial agreement

Hot take by Ferrell on ranch estate restrictions

Rigor mortis makes you an inflexible ranch manager

4A: Estate and gift taxation issues

The current estate tax landscape (2026)

- $15,000,000 / $30,000,000 unified credit (inflation indexed)
- 40% marginal rate past exemption
- Spousal portability retained
- Stepped-up basis retained
- $19,000 / $38,000 annual gift exclusion (inflation indexed)
  Remember: Not a “cap” on gifts / connects to unified credit
- Credits and caps adjusted for inflation annually

How spousal portability works

Dad dies in 2025 with $12.5 million in value assigned to his estate

$13.99 million credit (2025)
-$12.50 million estate value
$1.49 million remaining credit

$0.00 taxable estate

How spousal portability works

Time passes, Mom makes some good investments, and Mom dies December 1, 2026 with a $16.00 million estate (assume credit remains flat)

$16.00 million estate for Mom
-$15.00 million credit (2026)
$1.00 million taxable estate

How spousal portability works

Aha, but portability to the rescue!

$16.00 million estate
-$15.00 million credit (2026)
-$1.49 million portable Dad credit
$0.00 taxable estate
via $16.49 million total available credit

Gifting of assets

- Carefully evaluate what assets to give
- If land is gifted in life, adjusted basis will not be stepped up at giver's date of death
- Fair market value (FMV) and adjusted basis (cost – depreciation) are key to determine the maount of the gift
- Gain is subject to income tax
- Loss is suspended (giver lost deduction)
- Each asset's gain or loss is kept separate

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

Parent gifts $250,000 of property to Child.

$ 250,000 gift
- $ 19,000 gift tax exemption (2026)
$ 231,000 taxable gift… BUT

Taxable gift eliminated by estate tax exemption

$ 15,000,000 estate tax exemption (2026)
- $ 231,000 taxable gift
$ 14,769,000 remaining estate tax exemption

(Currently, no "claw back rule" exists)

Gifts above and below the annual gift exclusion amount

If the gift is LESS than the annual exclusion:

- Gift tax is calculated on the amount of the gift but is not due to the IRS
- Increases the basis for the recipient

If the gift is MORE than the annual exclusion:

- Gift tax is calculated on the amount of the gift
- The amount above the exclusion is paid to the IRS (AH! But use the unified credit!)
- Amount below the exclusion is not due to the IRS.
- Does not increase basis for the recipient

What if you want to be REALLY generous with lifetime gifts?

Parent gifts $15,019,000 of property to Kid.

$15,019,000 gift

-$19,000 gift tax exemption (2026)

$15,000,000 potential taxable gift… BUT

Taxable gift eliminated by unified credit

$15,000,000 estate tax exemption (2026)

- $15,000,000 potential taxable gift

$ 0 remaining estate tax exemption

BUT ALSO $ 0 gift tax due



Step 5: Don’t stop

The Accountant



The Attorney



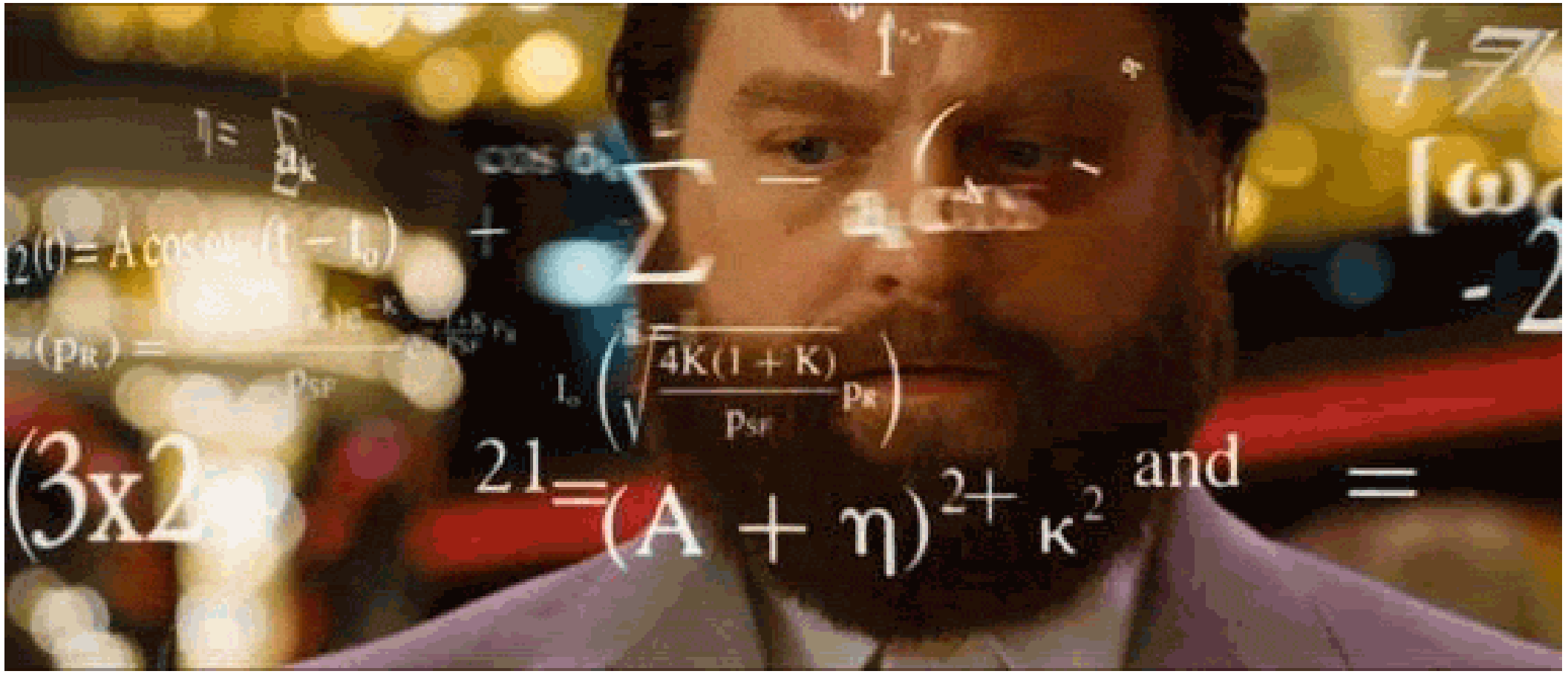
The Banker



The Investment Advisor



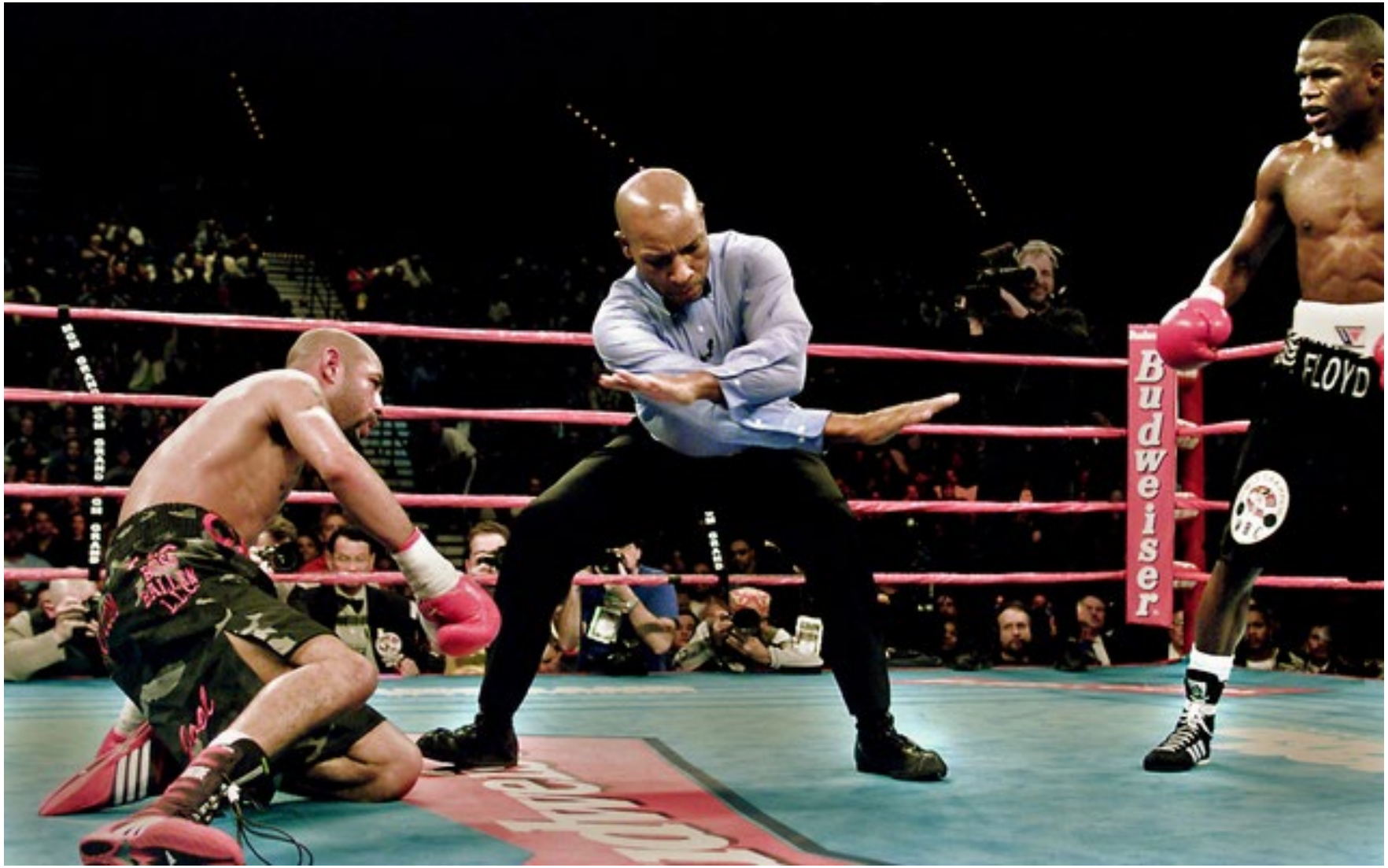
The Ranch Management Consultant



The Human Resources Advisor



The Referee



Time for a checkup!

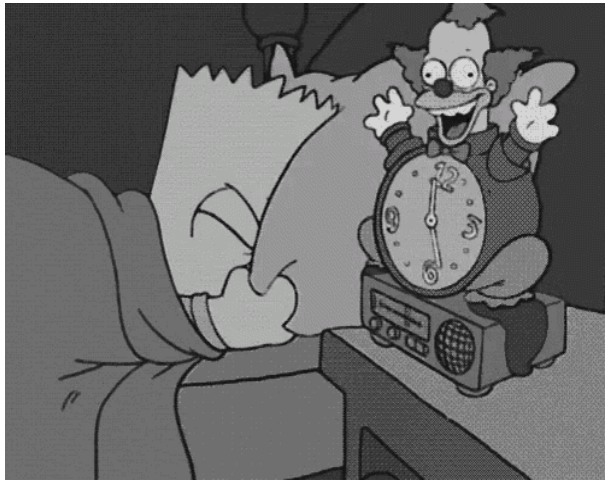














Come join us in Woodward on November 16 (or host a 2027 event)

