

Midwest Farmowner

News & Information from Soy Capital Ag Services

More Changes for Federal Estate Taxes Possible in 2012



Don McCabe

Illinois farmowners have witnessed state and federal estate tax changes over the course of the last few years, and 2012 could bring additional changes. Soy Capital Ag Services is monitoring activities and is prepared to help farmowners manage estate planning accordingly.

“The federal estate tax exemption is currently due to revert back to \$1 million in 2013, unless it is changed or deferred by Congress. The Illinois estate tax exemption is \$3.5 million at this time,” says Don McCabe, president, Soy Capital Ag Services. “We are staying in tune with the situation so we can advise clients about the best course of action.”

University of Illinois Department of Agricultural and Consumer Economics Tax School Associate Director Gary Hoff also monitors the issue. He explains that the Economic Growth and Tax Relief Reconciliation Act of 2001 increased the federal estate tax exclusion over a nine-year period and eliminated the estate tax completely for deaths in 2010.

Planners never thought a repeal would occur. But in December 2010, Hoff says the Tax Relief, Unemployment Insurance Reauthorization, and Jobs Creation Act of 2010 reinstated the estate tax retroactive to January 1, 2010. For 2010 deaths, the choice was to have no federal estate tax and a limited step-up in basis. The basis increase was limited to \$1.3 million. The decedent’s spouse was entitled to a \$3 million step-up, plus the \$1.3 million. Alternatively, the estate executor could elect to use a \$5 million exclusion and increase the basis of the assets to their fair market value on the date of death. The top tax rate was 35 percent.

Current law for deaths in 2011 and 2012 provides for the same \$5 million exclusion, a maximum 35 percent tax rate and a step-up in basis to the fair market value. The estate can use the fair market value six months after the date of death, if the value of the estate has declined. In addition, the special-use valuation for farmland was reinstated.

“The new law sunsets December 31, 2012. The exclusion will revert back to \$1 million with a 55 percent top rate,” says Hoff. “Planners predict Congress will readdress estate taxes before the end of this year, but there is no assurance this will happen.”

Hoff notes that a new feature was added with the 2010 Act; the portability of any unused estate tax exclusion amount from a decedent to the surviving spouse.

“There are limitations on using the excess exclusion amount. First, the spouse receiving the excess must die before the end of 2012. Second, only the exclusion of the last spouse can be used if there is a remarriage and the new spouse dies before the end of 2012,” he says.

To learn more about estate planning, contact Rick Imhoff, senior vice president and trust officer, with SCB Wealth Management at 217-429-8719 or rimhoff@soybank.com. MF



Inside: Strength Continues in Illinois Farmland Values

Farm Manager Spotlight: Tom Toohill

Tom Toohill's father, Clement, was a farmer. He also served a term as the DeWitt County state's attorney. His calling card for election read, "If a job is worth doing, it is worth doing right." Tom has shared his father's philosophy for the nearly 28 years he has been a farm manager for Soy Capital Ag Services and its predecessors.



Tom Toohill

"Farming's scientific knowledge base advances every day. New research on seeds and chemicals, along with experiences of what works and doesn't, make for a very dynamic decision model," he says. "I enjoy this environment and keeping up with changes."

Tom was raised on a grain and livestock farm in central Illinois. He received his B.S. in general agriculture from Southern Illinois University in 1981, and later an M.S. degree in agribusiness economics. After 14 years with Soy Capital's Peoria office, Tom relocated to the Springfield office in 1998. He currently is licensed for Illinois real estate sales and serves on the Illinois Council on Food and Agricultural Research (C-FAR) Board.

"I work with many excellent farmers. Sharing my experiences of what works for one operator with another two counties away

provides some value for all," he says. "I always consider the landlord's goals and risk position first in putting together crop plans. Sometimes what is best or convenient for the farm operator may not be for the landlord. Putting together all of the pieces for everyone's success is second nature to my job."

Tom believes farm managers must have certain expertise, communicate effectively and take care of business details.

"Providing and sharing expertise, communicating plans and results, and seeing to the everyday details of farm business and land ownership is what I do," he says. "Communication with the client is very important. I find that being available and responsive is most critical. Timely sharing of significant issues or results with my clients is top priority."

In today's world, Tom says keeping up with regulations, lease terms and trends can be a full-time job. Paying bills on time to get discounts, and negotiating leases before deadlines must be done on a day-to-day basis. He takes care to avoid letting things "slip through the cracks."

"Soy Capital clients are relieved to know they have someone watching out for and taking care of the details," he says. "Soy Capital Bank provides resources and support for successful farm management. We have an experienced, seasoned group of farm managers. We welcome the opportunity to 'do the job right' for any landowner considering hiring a farm manager."

Contact Tom Toohill at 217-547-2885 or ttoohill@soybank.com. MF

Is It Time to Make a Move with Farmland?

Prime Class A farmland values away from urban influences in the Midwest are up 20-30 percent year over year, depending on quality and location. New highs in corn prices have helped set new farmland value highs in several locations. Farmland owners are watching their net worth and potential estate values increase significantly.

The question is, should farmers and farmland investors purchase or sell?

"It is a good time to sell, if you have a short-term time perspective of ownership, fairly high basis in your land, want to take advantage of the relatively low capital gains tax rates and can use the increase in land values to rebalance a portfolio," says David Klein, managing real estate broker based in Soy Capital Ag's Bloomington office.

"On the other hand, it is a good time to buy if you have a long-term ownership perspective. Farmland makes a very attractive long-term investment with growing world population and incomes, current low interest rates, a history of being a good inflation hedge, multiple uses for both food and fuel, and uncertainty in alternative investments."

If you would like to talk through alternatives, contact Klein at 800-532-5263. MF



Soy Capital Helps University Client Maximize Farmland Returns

Illinois Wesleyan University (IWU) in Bloomington, Ill., over the years has been given more than 6,000 acres of farmland in Illinois. In fact, the first farmland given in 1873 started the university's agricultural endowment. Today, of the \$200 million endowment, \$50 million stems from farm holdings. Soy Capital Ag Services manages the nearly 30 farms.

"The university about a decade ago consolidated all of its farm management with one group, Soy Capital. We are very pleased with their performance," says Dan Klotzbach, IWU vice president for business and finance. "Working with one company, and a local company, provides consistency in our approach and allows us to build key relationships as we work to meet the goal of maximizing returns for the university and for our farm operators."

Chad Hoke is one of the farm managers in Soy Capital's Bloomington office who works with IWU. "Soy Capital (and our predecessor banks) has worked with IWU since 1953," says Hoke. "IWU has received many donations of farmland during that period

of time, and we have helped manage much of that property. Once IWU receives ownership of any farm and we begin working with the operator, we typically retain the gifting family's name to describe the property."

Hoke says the services provided to IWU are no different than any other Soy Capital client. Farm management responsibilities include such things as annual farm production planning and oversight, negotiating leases, grain marketing and recommending capital improvements. Farm managers typically make a minimum of three visits per farm per year.

In working with its farm operators, Klotzbach says IWU emphasizes sustainability and fairness in its arrangements. "We promote sustainability as a university, and many of our operators use minimum and no-till farming systems," he says. "Most of our land is in crop-share leases with farm operators, so we can share in the partnership income. We also have some variable cash rent leases as well, again to share in the income with the operators."

Income generated from the farms helps pay for faculty, student scholarships, building construction, maintenance and more.

"Farmland has been a stabilizing factor in our endowment portfolio, especially during market volatility," says Klotzbach. "Farmland has held its value during a challenging economy. We maintain the farmland base in our endowment to honor wishes of those gifting land to the university, to be good stewards and to benefit our students." **MF**



Dan Klotzbach



IWU Marc Featherly

Soy Capital manages nearly 30 farms for Illinois Wesleyan University.

Considering a Farm Donation? Work with the Institutions.

Farmland owners may choose to donate real estate to a university or other institution for any number of reasons. Such donations can be an excellent way to support a university's mission. Gifts also may eliminate capital gains tax that might be owed if property were to be sold outright, as well as offer an income tax charitable deduction for the full market value of the property, or reduce a farmland owner's future taxable estate. An estate planner, lawyer and accountant can answer questions specific to a farmland owner's situation.

"We do not get involved in the gifting process that occurs between a landowner and a university like Illinois Wesleyan," says Chad Hoke,

Soy Capital Ag Services farm manager. "But if anyone has questions about the future of the farmland, we may be able to help answer questions about ownership philosophy. We are a resource that can be used as needed."

In the case of Illinois Wesleyan University, the vast experience of the advancement department working with landowners and other people who might be interested in donating to the university is a plus. Questions about farmland donations to IWU can be forwarded to Ben Rhodes, IWU associate vice president for advancement, at 309-556-3137 or brhodes@iwu.edu. **MF**

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**Talk To Us First
Soy Capital Ag Services**

www.soycapitalag.com

BLOOMINGTON, IL
(309) 665-0955

Brian R. Thompson, AFM, ARA•
bthompson@soybank.com
Chad A. Hoke, AFM•
choke@soybank.com
David Klein, AFM•, ALC
dklein@soybank.com
Dan Patten, AFM, CCA•
dpatten@soybank.com
Kevin R. Meiss, AFM•
Kevin.Meiss@soybank.com
Mark R. Smith
msmith@soybank.com
Amy Russell
arussell@soybank.com

DECATUR, IL
(217) 421-9616

James R. Flanigan, AFM•
jflanigan@soybank.com
Bill W. Brown
bbrown@soybank.com
Daniel W. Moehring
dmoehring@soybank.com
Kevin Hilligoss
khilligoss@soybank.com

SPRINGFIELD, IL
(217) 547-2880

Keith L. Waterman, AFM•, ALC
kwaterman@soybank.com
Thomas L. Toohill, AFM•
ttoohill@soybank.com

PEORIA, IL
(309) 687-6007

Steven L. Burrow, AFM•
sburrow@soybank.com
Douglas W. Fehr, AFM•
dfehr@soybank.com

KANKAKEE CO., IL
(815) 936-8971

Don McCabe, AFM•
dmccabe@soybank.com
Steven P. Jacob
sjacob@soybank.com
John M. Tammen, AFM•
jtammen@soybank.com
Jaret Wicker
jwicker@soybank.com

WEST LAFAYETTE, IN
(765) 430-6246

Ed McCabe
emccabe@soybank.com

REAL ESTATE ASSOCIATES

R.E. Office in Peoria, IL
(309) 687-6007

Norman W. Bjorling, AFM•
nbjorling@soybank.com
Marvin Knobloch

R.E. Office in Bloomington, IL
(309) 665-0961

Wallace L. Yoder, AFM, ARA•
Thomas C. Moyer, AFM•
moyertc@comcast.net
Warren L. Zehr
Mark Hartman
Barrett J. Soliday
Steven H. Lott, AFM•
Garrett Schoenholz
Garrettshow@gmail.com

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www.soycapitalag.com

ADDRESS SERVICE REQUESTED

P.O. Box 1607
6 Heartland Drive, Suite A
Bloomington, IL 61702-1607

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