

Midwest Farmowner

News & Information from First Mid Ag Services

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Using Exemption Amount Strategies for Taxable Estates

By Kenneth C. Baker, J.D., MBA, Senior Fiduciary Officer

In our Fall 2022 newsletter, we discussed prioritizing an estate and succession plan for farming families. Current legislation and rising farmland values have increased the probability of landowners attaining a state or federal taxable estate, or both. As a reminder, the Illinois estate tax exemption is set at \$4 million per person, not indexed for inflation. The federal estate tax exemption is \$12.92 million per person in 2023, indexed for inflation through 2025. It currently is scheduled to revert to an inflation-adjusted \$5 million after 2025. Illinois' exemption amount is decoupled from the federal exemption amount, creating disparity. Many states, such as Indiana, Missouri and Florida, do not have state estate taxes.

Several strategies can help Illinois farmland owners take full advantage of these exemption amounts.

Titling assets coupled with a trust

As a simple example, Wife owns \$6 million in Illinois farmland. If Wife passed in 2023, she would not have a federal taxable estate, but she would have an Illinois taxable estate of \$2 million. If instead, Wife owns through her revocable trust farmland valued at \$3 million and Husband owns through his revocable trust farmland valued at \$3 million, each would utilize the exemption amount, eliminating the Illinois estate tax or allowing for the farmland to increase \$1 million in value before either has a taxable estate. The surviving spouse would be the beneficiary of the pre-deceased spouse's trust. Upon the death of the surviving spouse, the trust assets could be distributed to children, other heirs, charities or as the trust grantor decides.

Qualified Terminable Interest Property Trust (QTIP)

An option for Illinois residents, a trust with requisite QTIP provisions allows the surviving spouse use of and access to trust assets without immediate estate taxation based on the unlimited marital deduction. Once the surviving spouse passes away, the remaining trust assets are subject to the Illinois estate tax. This strategy defers the estate tax rather than eliminating it, delaying the need for liquidity to pay estate taxes at the first spouse's death.

S-corporations and limited liability entities (LLCs)

The Illinois estate tax can be imposed on non-residents who own real and tangible personal property in Illinois at their death. For

example, a Florida resident who owns a combination of farmland and equipment physically located in Illinois that exceeds \$4 million may have an Illinois taxable estate, though they are not a resident. Generally speaking and dependent on state law tax treatment, s-corp stock and LLC interests are considered intangible personal property. Non-residents who own an LLC interest may not have an Illinois taxable estate, notwithstanding the Illinois farmland or equipment owned by the LLC.



United Soybean Board

These options also benefit Illinois residents. Illinois LLC members can gift membership interests to the next generation. Gifts under the annual exclusion amount of \$17,000 per individual or \$34,000 for married couples in 2023 do not use up any estate or gift tax exemption amounts or require filing of a gift tax return. If Husband and Wife annually gift \$34,000 of LLC interests to their four adult children for ten years, they reduce their estate value by \$1,360,000. Any amount gifted beyond the annual exclusion would decrease their federal exemption amount and require filing a gift tax return. Valuation discounts (e.g., lack of marketability, lack of control) may also be available when gifting membership interests, thereby extending the effectiveness.

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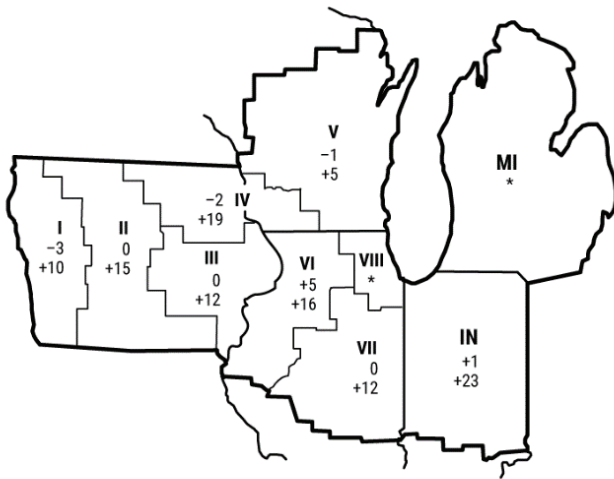
Inside: Farmland Values Increase in 2022

Farmland Values Up 10 to 23% Across “I States” in 2022

By David Klein, AFM, ALC, Vice President & Designated Managing Broker/Auctioneer

On February 9, 2023, the Federal Reserve Bank of Chicago released its survey on farmland values, confirming the numbers tracked at First Mid Ag Services. The gain was the second-largest increase in the past 10 years, broadly found to be up 12% for the year.

Chicago Federal Reserve Change in Farmland Values



Top number shows the last quarter of 2022, and the bottom number is year-over-year percent change.

At First Mid Ag Services, we compare the first half and last half of the year to determine how farmland values change seasonally and by soil quality in the strategic market areas we serve across Illinois.

Comparing the last half of 2021 to the last half of 2022, sales data comprised of auctions across all land classes shows a 16% per tillable acre price increase year-over-year and a 12% increase per acre. A slightly lower percentage of tillable acres and 1.5-point higher soil Productivity Index in 2022 versus 2021 accounts for some of the variance. The dataset suggests we sold slightly higher-quality land in 2022 than in 2021.

It also indicates we were up 10% in the first half of 2022 and only 2% in the second half of the year. This correlates well with Chicago Federal Reserve numbers.



Soil quality also impacted farmland value in 2022. Soils in the 130 to 138 soil PI range increased the most, while some of the lower soil quality ranges showed smaller increases in land valuation.

- In the second half of the year, highly productive soils of 138 or higher revealed an average price of \$17,236 per acre, or \$125.38 per soil PI point per tillable acre. They were also 97.3% tillable.
- The second tier of 130 to 137.9 showed an average price of \$14,769 per acre, or \$116.83 per soil PI point per tillable acre. These farms were 94.4% tillable. The way we classify land, this category showed the highest overall price increase, at 13%.
- The next land class, 123 to 129.9 soil PI, averaged \$11,840 per acre, or \$108.50 per soil PI per tillable acre. This land class averaged only 86.1% tillable, heavily influencing price. These farms have more grass waterways, tree lines, ditches and undulation.
- Our lowest soil quality divide gets wider and has more variation because it includes both lower percentage tillable tracts and those containing sandy soils with irrigation. This class is somewhat less reliable as a barometer, but the average was \$11,756 per acre with a weighted price of \$111.99 per soil PI per tillable acre, being only 76.7% tillable.

Supply increased in 2022 across all land classes, and we saw a diminished supply coming to the market as we began 2023. While market factors such as interest rates impact some purchases, many are still being made with cash. If supply does not become overburdensome by forced sales, farmland prices could remain very strong. Grain prices have been holding and will continue to heavily influence the price direction of land, as fertilizer costs and loan rates have retraced some going into spring planting.

First Mid Ag Services continues to have upcoming auctions and listings detailed on our website, www.firstmidag.com. MF

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Spousal Lifetime Access Trust (SLAT)

This option may fit those with a potential federal taxable estate or who want to take advantage of the high exemption amounts prior to 2025. As an example, Husband creates and funds the SLAT using all or part of his federal exemption amount with appreciable assets such as farmland. Wife is the trustee and beneficiary of the SLAT, with Children as the remainder beneficiaries. Should the exemption amount sunset by 2026, Husband has captured the higher exemption amount

while excluding the appreciation of the assets from his estate. A major drawback is Husband's inability to benefit from the SLAT, especially if the beneficiary spouse predeceases Husband or in the event of divorce.

While this article provides general information, it not a recommendation. First Mid Wealth Management Company does not offer tax or legal advice, but our specialists can discuss how strategies like these may fit into an estate plan.

Contact Kenneth Baker at kebaker@firstmid.com or 309-687-6015 for more information. MF

Thompson Earns Accredited Land Consultant Designation

First Mid Ag Services and the REALTORS Land Institute (RLI) proudly announce that Craig Thompson, farm manager and real estate broker in the Bloomington, Illinois, office, has officially joined the ranks of those holding the elite Accredited Land Consultant, or ALC, designation. Thompson is now among the most dedicated land professionals from around the globe, joining an elite group of over 500 land specialists who hold the designation. In addition to subscribing to the REALTORS Code of Ethics, ALCs support the high standards of conduct and experience that directly relate to their specialty. As an ALC, Thompson has access to the best industry knowledge, an unprecedented network of fellow land professionals and a variety of resources to help best serve his clients. His depth of knowledge translates into the highest level of service to clients, ensuring they receive the best services in the business when buying, selling, managing or investing in a property.

The RLI confers the ALC designation only to its members who meet the rigorous knowledge and experience requirements. The ALC designation is recognized throughout the industry as the pinnacle of achievement for land real estate professionals. Thompson joins David Klein and Keith Waterman as ALCs on the First Mid Ag Services team. **MF**



Craig Thompson

First Mid Provides Local Connection for Land Sale

Though David Glasscock and his sister Vicki Ehrmann moved to Colorado more than 40 years ago, they grew up in Decatur, roughly 40 miles from the farm their grandfather owned near Windsor, Illinois. He eventually moved into town and rented the farm to local tenants on a handshake deal. After he died, their mother managed the farm for years, working with the same tenants.

“When our mother passed away, I tried to be a gentleman farmer,” David says. “I soon learned that didn’t work for me.”

He and Vicki decided to sell the farm. However, the long-time tenants were not in a position to purchase it. The siblings preferred to work with locals to arrange the sale and target local farmers.

“My mother had an account at First Mid, and I was dealing with them as co-executor of her estate,” he says. “I knew they had an ag department. When I reached out to them, they responded promptly and knew exactly what needed to be done to get a valuation on the land.”

David worked with Justin Wheeler in the First Mid Decatur office. Cory Kauffman, Mattoon regional manager, took the lead on the land sale because he was familiar with the Windsor area. Based on recommendations from the First Mid team, David and Vicki chose to conduct an in-person auction with online bidding using the choice and privilege method.

First Mid advertised the sale of 212.8 acres in five tracts locally and held the auction in Windsor. Both David and Vicki attended. The tracts sold in three rounds of bidding.

“I had never been to an auction like this before, and I was impressed with the efficiency,” David says. “While we had good attendance, all the bids were made online. I learned that the farmers were bidding from their phones while in the room. Our land valuation was significantly lower than the selling price, which we appreciated.”

David credits Cory, Justin and the First Mid team with educating and guiding him through the process. Their communication, knowledge and organization led to a smooth auction and closing. As hoped, all the buyers were local. David and Vicki met each of them after the auction.

“It was a bittersweet period,” he says. “We talked with farmers who knew and remembered our grandfather. The land had been in the family so long that we wanted to be there, which was a good decision emotionally. It gave Vicki and me closure, and we appreciated shaking hands with the buyers.” **MF**

Ag Services Staff Member Receives Excellence Award

Megan Gifford, one of the First Mid Ag Services team members, recently received the company’s 2022 Chairman’s Award for Excellence. First Mid Chairman and CEO Joe Dively presents this award to a select number of employees who demonstrate the organization’s core values, while making exceptional contributions to both internal and external customers.

Megan has been instrumental in the technology changes that the Ag team has undergone in the last year. She worked tirelessly to ensure the move to electronic data storage was done efficiently, ensuring a smooth transition with an organized end result. Megan also is serving as a key member of the FARM rewrite committee, communicating the team needs to the vendor for the creation of an improved final product. Even with the additional work created with these projects, Megan is always willing to lend a hand to her teammates whenever asked — all while keeping the office running very smoothly. She is a valuable team member, and we congratulate her on this much-deserved award. **MF**



Megan Gifford



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