# Ag News

Fall 2025 from CBI Bank & Trust

To Our Farm Families and Friends,

In early 2023, after spending over 25 years in ag banking in Joy, IL, I learned our bank would be for sale. In recent years, many banks have been moving away from the ag sector, so my concern was that we would be acquired by some large, out-of-area financial institution that would be part of this trend. I worried new ownership would not value the business we had with our local farm families, many of whom we had relationships with for multiple generations. I identified two banks that I thought would be ideal purchasers because of their commitment to their local communities and their roots in ag banking. I was relieved when I learned one of these two preferred institutions, CBI Bank & Trust, was eventually the successful bidder.

After being part of the CBI family for over a year, it is hard to imagine having found a better home. There is a genuine commitment from CBI ownership to support our farm families. Our ag team is exploring ways to provide better service and more valuable analysis to the clients we serve. Also, CBI has begun utilizing the State of Illinois' Ag Invest program to pass along low-cost operating money to our Illinois producers. We are encouraging the State of Iowa Treasurer's office to adopt a similar program.

The people working in our Ag Department are from farm families. We not only understand how tight things are from a numbers-on-paper standpoint, but we also feel the pinch you are feeling. A goal of our Ag Department is to help you pass success on from generation to generation.

We look forward to learning what your success looks like and partnering with you to help achieve it.

Bryan Hofmann
Western Illinois Market President
CBI Bank & Trust

# Ag Provisions of One Big Beautiful Bill (H.R.1)

The One Big Beautiful Bill Act (H.R.1) was signed into law by President Trump on July 4. Below are some of the provisions relevant to farmers.

## Permanent extension of expiring Tax Cuts and Jobs Act provisions, including:

- Individual rate structure.
- Estate tax deduction slightly increased to $15 million per individual ($30 million per married couple). Future increases are indexed.
- Higher AMT exemption.
- Mortgage interest deduction for loans with principal of less than $750,000. (This is not indexed.)

## SALT (State and Local Tax) deduction

- Capped at $40,000 per taxpayer in 2025, increasing by 1 percent per year through 2029. Deduction phases out for taxpayers with income above $500,000. Cap drops to $10,000 without indexing in 2030.
- No changes to corporate SALT or state law "workarounds" used by pass-throughs.

## ACRE (Access to Credit for our Rural Economy)

- 25 percent exclusion for interest earned on loans secured by agricultural land.
- Available to loans made after the date of enactment.
- Provision is permanent law.
- Refinancings. A loan does not qualify for the ACRE exclusion if the proceeds of the loan are used to refinance a loan made before the date of enactment, or, in the case of any series of refinancings, the original loan was made on or before such date.

Thanks to the newly enacted ACRE Act, CBI Bank & Trust can now offer even more competitive rates on new farm real estate loans. This federal legislation exempts interest earned on certain agricultural real estate and rural mortgage loans from federal income tax. It will lower the cost of lending and enabling us to pass those savings directly to you – making financing the purchase of a farm more affordable.

## Business provisions

The provisions below are permanent law.

- Section 179 expensing cap approximately doubled to $2.5 million, indexed. Phasedown begins when the cost of the property exceeds $4 million.
- R&D expensing: smaller businesses (gross receipts of $31 million or less) can retroactively expense back to 12/31/2021.
- Bonus depreciation for short-lived investments.
- EBITDA-based limitation (as opposed to EBIT) on business interest deduction. Deduction may not exceed 30 percent of EBITDA for businesses with gross receipts of more than $25 million. ▪ 100 percent expensing of qualifying structures, with the beginning of construction occurring after Jan. 19, 2025, and before Jan. 19, 2029, and placed in service before Jan. 1, 2031.

From the desk of

## Cole Neese

Assistant Vice President, Ag and Commercial Banking

The 2025 crop year is well underway, and most areas CBI Bank & Trust serves have experienced great crop conditions thus far. As we approach harvest time, there are a few things I'd like to bring to mind.

**Safety:** There is no doubt that farming can be a dangerous job, especially during harvest. It's easy to rush and not double-check things, but I urge you to do so! It seems we see tragedy in our communities more often as equipment gets bigger/heavier and we store more grain on the farm.

**Grain marketing:** With several macroeconomic factors at work, it's no secret that grain markets have been unexciting most of 2025. Working as a grain merchandiser in a previous job has shown me that there are no secrets to selling at the top of the market every time, but taking emotion out of selling decisions and knowing your breakeven cost when making sales will pay dividends.

**We are here to help:** CBI has been a partner in ag communities for over 100 years. Not only do we have dedicated ag lenders who carry expertise in real-world application, but we are also dedicated to making your farm operation successful. We live and breathe ag lending and are always willing to talk through financial questions!

Thank you for allowing CBI and me to serve your communities.

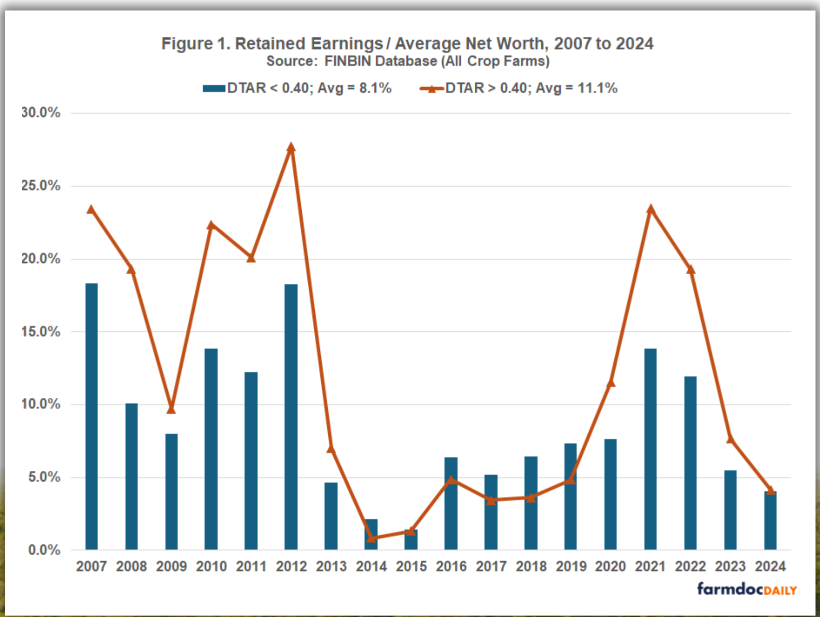
# Impact of Leverage on Rates of Return

Increasing financial leverage will increase expected returns as long the marginal returns from the use of loans exceeds the cost of borrowing. In favorable economic times, higher leverage can improve financial performance and stimulate farm growth. However, in unfavorable economic times, leverage can cause business performance to deteriorate rapidly. Thus, higher leverage may increase expected returns and financial risk. Given this risk/return relationship, what is the optimal level of farm debt?

## Changes in Net Worth and Rates of Return

There are three major changes that contribute to an increase or decrease in net worth: change in retained earnings, change in contributed capital, and change in market valuation. The change in retained earnings measures the amount of net income in a particular year that is kept in the business. The change in capital contributions accounts for gifts, debts forgiven, and capital contributions and distributions. The change in market valuation subtracts the change in deferred liabilities from the change in the market value of capital assets. Deferred liabilities represent an amount that is owed if an asset is sold.

Figure 1 illustrates retained earnings as a percentage of average net worth for both farm categories. Obviously, there is a lot of variability in this measure for each group of farms. However, the variability is higher for the high debt to asset ratio (DTAR) farms. The average performance measure for the high debt farms at 11.1 percent is higher than the average performance measure for the low debt farms (8.1 percent). As noted above, leverage improves financial performance in a good economic environment. The relationship between the average performance measures point to the strong financial performance exhibited by farms since 2007. Relatively low interest rates experienced during most of the study period likely contributed to the relatively strong performance of the high debt farms.



To further examine the relationship between financial performance and leverage, we will discuss relative rates of return on equity between farms with various debt to asset ratios in 2024, a relatively low net farm income year. In 2024, all crop farms had an average rate of return on equity of 1.3 percent. For low and high debt farms, the average rate of return on equity was 1.6 and 0.9 percent, respectively. Notice that the rate of return is lower for the high debt farms. For a group of farms with a debt to asset ratio greater than 0.60 (a subset of the high debt farms), the rate of return on farm equity was a negative 3.8 percent. Again, in a low net income year, financial performance is inversely related to leverage.

## Historical and Projected Interest Rates

Interest rates were historically low from 2008 to 2022. Figure 2 illustrates the quarterly agricultural interest rate for operating loans as reported by the Federal Reserve Bank of Chicago as well as the quarterly prime interest rate (Federal Reserve Bank of St. Louis). The agricultural interest rate dropped from 8.38 percent in 2007 to 6.69 percent in 2008. The drop in the prime interest rate was even sharper (8.05 percent to 5.09 percent). These two interest rates did not climb back above 8 percent until 2023. In 2023 and 2024, the annual operating and prime interest rates were approximately 8.25 percent.

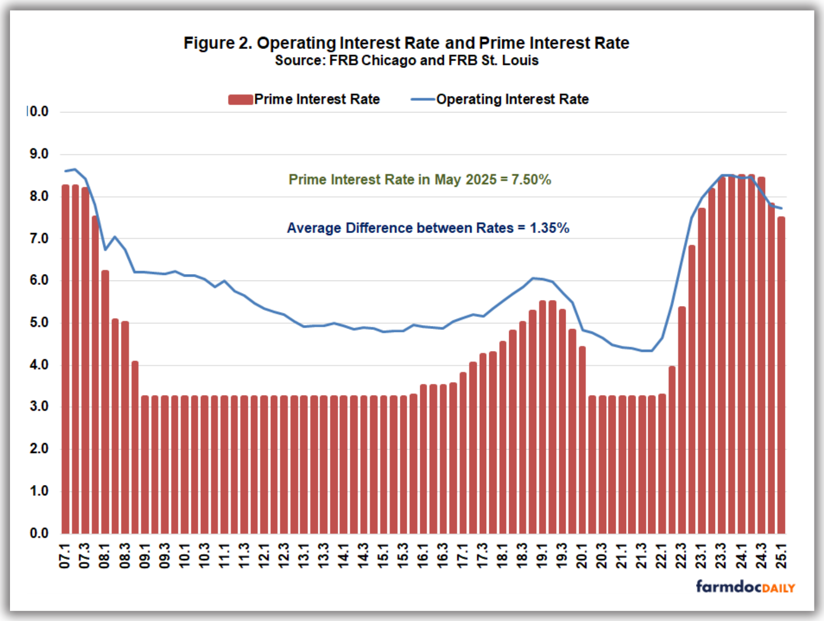
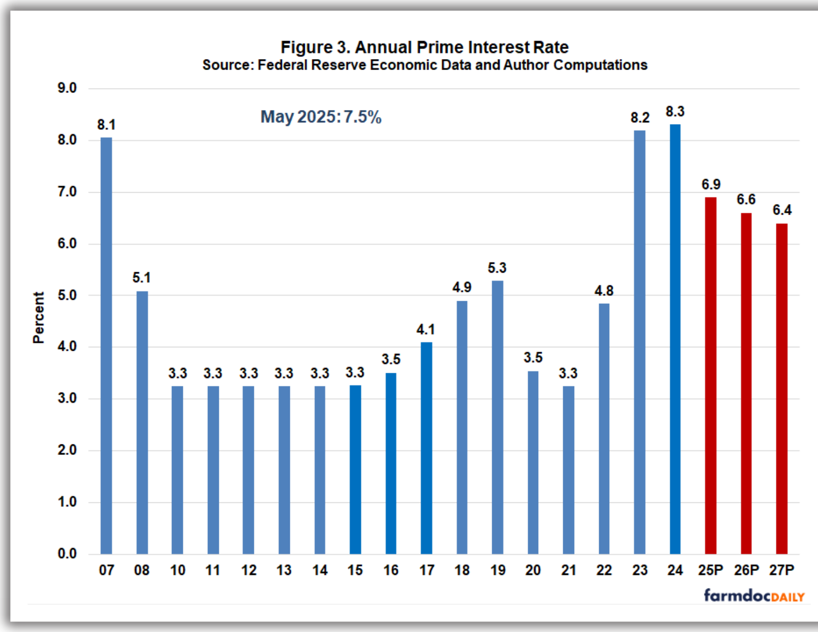



Figure 3 illustrates historical and projected prime interest rates. The projections were computed by adding 3 percentage points to the latest fed fund rate projections made by the U.S. Federal Open Market Committee. Three percentage points represent the long-run difference between the prime interest rate and the federal funds rate. As illustrated in Figure 3, the prime interest rate is expected to decline in the next couple of years. However, the rate is expected to remain well above the rates experienced from 2008 to 2022.

What are the implications of relatively higher interest rates on leverage? First, higher interest rates increase the hurdle needed for new capital purchases. Second, higher interest rates increase the probability that repayment of term debt will run into a snag. Again, it is important to point out that optimal debt levels depend on many factors and are farm specific. Having said that, higher interest rates do suggest that extra caution is needed when debt to asset levels are above 0.40.

## Summary

High debt to asset ratio farms had a lower net farm income ratio during the 2007 to 2024 period than low debt to asset ratio farms. However, retained earnings as a percentage of average net worth was higher for the high debt to asset ratio farms. For a substantial proportion of farms, leverage increased both financial performance and financial risk during the 2007 to 2024 period. It is important to note that interest rates were unusually low from 2008 to 2022. These low interest rates made leverage more attractive than it would have been otherwise. Interest rates increased rather dramatically in 2023 and are expected to remain above the level experienced from 2008 to 2022 for the foreseeable future. Given this new interest rate environment, farms may want to reevaluate the proportions of debt and retained earnings used for expansion and for investment in new endeavors. Investments that made sense when interest rates were very low may not make as much sense in the current environment.




Langemeier, M. "Impact of Leverage on Rates of Return." farmdoc daily (15):123, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, July 7, 2025.

# The Federal Estate Taxes

Property owned by a person at the time of death is known as the decedent's estate. When the estate is transferred to the recipients (known as heirs), the federal government may impose a tax on the right to transfer that property. That is the federal estate tax. The tax is owed by the estate of the decedent and is paid by the estate prior to the transfer of the remaining property. Heirs who receive money or property from an estate do not pay the estate tax, nor do they pay any income tax on the value of the inherited property.

## What Estates Are Subject to a Federal Estate Tax?

The amount of the estate tax is based on the value of the estate at the time of death. Federal law allows a certain amount of property to be transferred at death without any tax obligation. The amount that can be transferred to others without tax is known as the "unified credit." It is also referred to as the basic exclusion, lifetime exclusion, or lifetime exemption. This amount has increased over time and is currently $13,990,000 for 2025. It will increase to $15,000,000 in 2026 and then be adjusted for inflation starting in 2027.

## How Many Estates Are Subject to Federal Estate Tax?

Data on how many estates actually pay federal estate tax is gathered by the Tax Policy Center (TPC), a non-partisan joint venture of the Urban Institute and the Brookings Institution. For 2023 deaths, when the exemption was $12,920,000, the Tax Policy Center estimated there would be about 4,000 taxable estates in total.

USDA Economic Research Service (ERS) estimated that for 2024, 0.3% of farm estates resulting from principal operator deaths, or 141 estates, would owe estate tax.

## How is Property Valued for Purposes of Federal Estate Tax Calculations?

Property included in the gross estate is valued at its fair market value (FMV) as of the decedent's date of death. For certain types of property, a qualified appraisal may be necessary to determine the appropriate value. An alternate valuation date within six months after death may be used.

Under certain conditions, land used in farming or other closely held (family) business may be valued at what is called a **special use valuation**, which may be lower than FMV. The idea behind allowing a use value is to provide an additional tax break for family farming operations intended to be transferred from one generation to the next. Instead of valuing the property at its highest and best use, this tax provision allows real property used in farming to be valued at its current use. Current use value for farmland is based on dividing the five-year average local cash rental rate minus property taxes by a federal land bank interest rate that is determined each year.

If the property is sold to a nonfamily member or ceases to be used for farming within 10 years following the death, all or a portion of the federal estate tax benefits obtained under a special use valuation provision must be repaid. Competent legal or tax professionals should be consulted to learn more about property valuation and the requirements to elect use value on family farmland.

## How is the Federal Estate Tax Calculated?

The executor of an estate must file a federal estate tax return within nine months of a person's death if that person's gross estate exceeds the exempt amount ($13.99 million in 2025, $15 million in 2026–adjusted for inflation beginning in 2027). The estate tax is applied to the decedent's gross estate, which generally includes all of the decedent's assets, both financial (such as stocks, bonds, and mutual funds, business entity interests) and real (homes, land, and other tangible property). It also includes their share of jointly owned assets and life insurance proceeds from policies owned by the decedent. After the gross estate is valued, deductions are subtracted to arrive at the net taxable estate. Federal estate tax law allows an unlimited deduction for transfers to a surviving spouse and to charity. Other deductions are allowed for debts, funeral expenses, legal and administrative fees, and state inheritance taxes paid. Therefore, the gross estate less the allowable deductions equals the net taxable estate. Once the amount of the net taxable estate is determined, the applicable credit exempts a large portion of the estate–again, $13.99 million for 2025 deaths ($15 million in 2026–adjusted for inflation beginning in 2027).

Any remaining value of the estate over that amount faces a tax rate of 40%.

*This article is a basic overview of concepts related to the federal estate tax and is intended to give individuals points to consider as they engage in the estate planning process. Do not consider this article to be exhaustive as the possible impact of federal estate tax is quite complex and will vary with each individual situation. This article is for educational purposes and should not be considered legal advice.*

**For questions regarding estate planning, please contact Dale Schlutz, Trust Officer and Farm Management Specialist, at (563) 262-3823.**

Coutu, Kristiana. "Federal Estate Taxes." Accessed July 30, 2025. https://www.extension.iastate.edu/agdm/wholefarm/html/c4-24.html

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