

The right time to transfer a farm asset depends on two questions: **Who is likely to sell this asset, and when?** A lifetime gift may help move future appreciation out of a taxable estate, but it can also pass a low income-tax basis to the next generation. Inheriting the same asset may provide a basis adjustment at death, which can reduce taxable gain if the heir sells it.

For many farm families, income tax—not federal estate tax—is the bigger succession threat. That matters because the tax result can differ sharply for land, machinery, livestock, and other assets. There is no universal rule that says “give it away now” or “wait until death.” Good **basis planning for farm succession** starts with the asset, its depreciation history, and the family’s likely sale plans.

First, separate estate tax from income tax

People often call every tax connected to an inheritance an “estate tax.” That’s one of my words that scares farmers for no reason. Estate tax is a tax on the transfer of wealth at death, if the estate exceeds the applicable federal or state threshold. Income tax is different: it can apply when an heir sells property, or when a business recognizes income from a disposition.

Federal estate tax exposure is uncommon for most farm estates, though the value of land, buildings, machinery, and other assets can add up quickly. State estate or inheritance taxes may also matter, depending on where the family lives and owns property. Thresholds and rules can change, so families should check current law rather than rely on an old planning document or a neighbor’s story.

The USDA Economic Research Service tracks farm structure, income, and financial conditions across U.S. agriculture. That research helps put farm balance sheets in context, but national data cannot tell a family whether its own estate faces tax. The answer requires an asset-by-asset inventory, current valuations, ownership records, and advice based on the law in the relevant state.

The central difference: IRC 1015 vs. IRC 1014

The tax basis of an asset is generally the amount used to calculate taxable gain or loss when it is sold. A lifetime gift and an inheritance often produce different starting points. The comparison most farm families need to understand is **IRC 1015 vs. IRC 1014**.

How the heir receives the asset
General basis rule
Why it matters
Lifetime gift (IRC 1015) Usually, the recipient takes the donor’s carryover basis, subject to special rules. A low basis can mean more taxable gain if the recipient later sells. Inheritance (IRC 1014) Basis is generally adjusted to the asset’s fair market value at the owner’s death, subject to exceptions. A higher basis may reduce gain on a later sale; a lower value can also reduce basis.

These are general rules, not a substitute for reviewing the specific asset and transfer. For gifted property, special rules can apply if the asset’s value is below the donor’s basis, and the basis used for a loss may differ from the basis used for a gain. Inherited property also has exceptions and valuation requirements. A qualified tax adviser should confirm the treatment before the family acts.

Why farm equipment needs special attention

Farm equipment often creates the biggest surprise. A tractor may be “paid off,” but that does not mean it has no tax consequences. If the farm claimed depreciation, its adjusted tax basis may be much lower than its market value

—sometimes close to zero. Depreciation can reduce tax basis today and create future recapture risk when the equipment is sold or otherwise disposed of.

For many depreciable business assets, including qualifying equipment, **IRC Section 1245 depreciation recapture is ordinary income**, generally up to the amount of depreciation previously claimed and subject to the applicable calculation. In plain English, selling a heavily depreciated tractor for more than its adjusted basis can produce ordinary income—not simply a capital gain taxed at a lower rate. The exact result depends on the asset, its tax history, and the transaction.

A gift does not wipe out that depreciation history. The recipient generally takes the donor's basis and related tax history under the carryover-basis rules. If the recipient sells the equipment, the accumulated depreciation can still shape the tax bill. By contrast, property inherited from a decedent generally receives a basis adjustment under IRC 1014, which can change the amount of gain and the recapture calculation on a later sale. Don't assume that means every inherited asset is tax-free to sell; confirm the basis and depreciation treatment with a tax professional.



Before transferring machinery, gather purchase records, depreciation schedules, and a current estimate of value. <https://www.agdaily.com/sponsored/farm-succession-taxes-income-tax-not-estate-tax-bigger-threat/> Schedule F can help organize the farm's income and expenses, but it is not a substitute for a complete fixed-asset ledger. The records should show what the farm bought, when it placed the item in service, what depreciation it claimed, and what basis remains.

Land, buildings, and livestock have different answers

Farmland

Land is not depreciated, so it does not generate the same depreciation-recapture issue as machinery. But the basis question can be substantial. A parcel purchased decades ago may have a very low basis relative to its current value. A lifetime gift generally carries that low basis to the recipient. If the child sells the land, the taxable gain may be large. If the child inherits it, the basis is generally adjusted to fair market value at death, subject to the rules and exceptions that apply.

A family that wants the child to keep farming may still consider a lifetime transfer for management, family, or other planning reasons. But ask first: Who might sell the parcel, and when? If the likely answer is "the child may sell part

of it to pay siblings or retire,” basis can outweigh the appeal of an early gift.

Buildings and other depreciable property

Farm buildings and improvements can have depreciation histories too. A transfer plan that looks only at land value may miss the tax exposure attached to grain bins, shops, barns, or irrigation systems. Have the adviser review each item’s classification and depreciation schedule rather than lumping everything into “the farm.”

Livestock and crops

Livestock, stored grain, and growing crops can raise separate questions involving accounting method, inventory, basis, and income recognition. Their treatment may not mirror land or equipment. Families should identify what is being transferred and how the farm reports it before signing a deed, bill of sale, or gift document.

When a lifetime transfer may make sense

A gift during life can be useful when the family has a clear reason to transfer ownership now and has measured the income-tax cost. Potential reasons include helping the next generation take over management, shifting future appreciation, using available gift-tax planning strategies, or making ownership changes gradually.

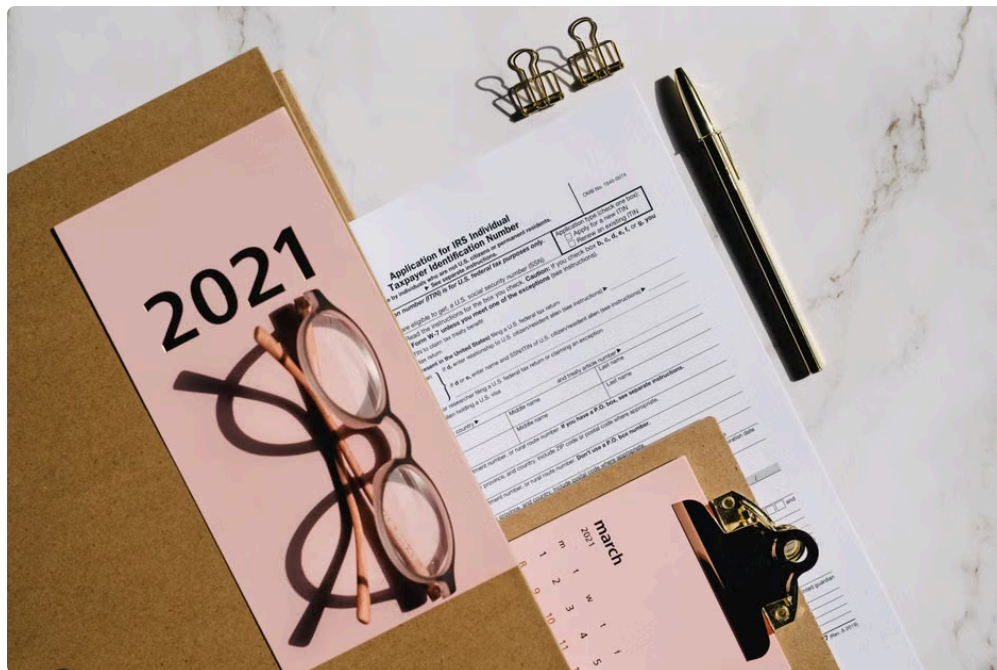
Lifetime gifts can also make the transfer visible and practical: the successor can learn to manage the asset while the older generation is still available to help. But a gift can reduce the donor’s control and access to the property. It may affect eligibility for benefits, creditor protection, or a later sale. It can also create family friction if one child receives an asset while others do not.

Gift-tax reporting and estate-tax planning are related but separate from income-tax basis. A gift that does not trigger gift tax can still pass a low basis. Don’t let “no gift tax due” stand in for a full tax analysis.

When waiting until death may make sense

Holding an asset until death may preserve the opportunity for an IRC 1014 basis adjustment. That can be especially valuable for highly appreciated land or depreciated equipment when the heir expects to sell soon after inheriting. It may also allow the older generation to retain control and income during life.

Waiting is not automatically better. Estate tax or state inheritance tax may apply; the law may change; the asset may decline in value; and family, business, or care needs may favor a transfer sooner. Some assets may be sold or distributed through a business arrangement before death, changing the tax result. The family also needs a workable succession plan—not just a tax-efficient date of transfer.



A practical decision process for farm families

1. **List the assets and owners.** Separate land, machinery, buildings, livestock, crops, and business interests. Note whether each asset is owned individually, jointly, or by an entity.
2. **Gather the tax records.** Find deeds, purchase documents, appraisals, depreciation schedules, entity returns, and prior gift or estate documents. Reconcile equipment records with Schedule F and the farm's fixed-asset ledger.
3. **Estimate current value and adjusted basis.** A market estimate alone is not enough. Compare it with the tax basis and depreciation claimed for each asset.
4. **Model the likely sale.** Ask who may sell the asset, when, and why. Compare the tax consequences of a lifetime gift, an inheritance, and other possible transitions.
5. **Check the whole plan.** Review federal and state transfer taxes, income tax, retirement needs, debt, family fairness, control, and the operating plan for the farm.
6. **Document and revisit it.** Keep signed transfer documents and updated asset records. Revisit the plan after major purchases, sales, law changes, or family changes.

Use tools and information carefully

AGDAILY and other agricultural outlets can help families follow industry conversations, but an article or online discussion cannot calculate the basis of a specific tractor or parcel. The USDA Economic Research Service offers useful research on farm finances and structure; use it for context, not as a substitute for your own records and professional advice.

For busy families, an audio player such as Instaread can make it easier to listen to general books and summaries while working. Treat that as a learning aid, not as tax guidance. Before transferring an asset, have a farm tax professional, attorney, and financial adviser review the actual ownership and tax records together.

So, gift or inherit?

For many farms, the better answer depends on whether the family expects to sell the asset and how much tax basis it carries. A lifetime gift under IRC 1015 usually transfers the donor's basis, which can preserve a large future gain and the consequences of past depreciation. An inheritance under IRC 1014 generally adjusts basis to fair market value at death, potentially reducing income tax on a later sale.

Estate tax deserves attention when the numbers and state rules call for it. But don't let that concern crowd out the income-tax question. The number that should scare a farm family more than the phrase "estate tax" may be the adjusted basis of the equipment they plan to sell. Check the depreciation schedules, identify who is likely to sell each asset and when, and make the transfer decision with those facts in front of you.