

Yes—but “plan around” should mean understanding the tax before a sale or transfer, not trying to make depreciation recapture disappear. A farm can be debt-free and still carry a substantial income-tax bill when equipment is sold. The loan may be paid off; the tax basis may be low.

That distinction matters in succession planning. For many farm families, federal estate tax is not the most likely tax threat. Income tax on a lifetime sale, a transfer, or the eventual sale of inherited assets can matter more. The numbers to check include each asset’s adjusted basis, depreciation history, likely sale price, and the person who will report the income.

Before discussing a strategy, ask the question I always start with: **Who is likely to sell this asset, and when?** The answer can change the tax result—and the right planning steps.

First, Separate Estate Tax From Income Tax

People often call every tax issue “estate tax.” That label can send a family toward the wrong solution. Estate tax is generally a tax on the transfer of property at death when the estate exceeds the applicable exclusion, subject to the rules in effect at that time. Income tax is different. It can arise when a person or business sells property, receives certain payments, or has depreciation recapture.



For most farm estates, federal estate tax exposure is uncommon, though state estate or inheritance taxes, future law changes, and unusually large or rapidly appreciating estates may change the picture. Income tax deserves attention even when an estate is nowhere near the federal estate-tax threshold. A farm can have valuable equipment with little remaining tax basis, and a sale can produce taxable gain without producing a comparable amount of cash after debt, selling costs, and other obligations.

The USDA Economic Research Service publishes research on farm finances and the agricultural sector. That kind of broad data can help put farm balance sheets in context, but it cannot tell a specific family what its tax bill will be. That requires an asset-by-asset review.

Why Depreciation Can Create a Surprise

Depreciation deductions can reduce taxable farm income while an asset is used in the business. Those deductions also reduce the asset's adjusted tax basis. If the owner later sells the asset for more than its adjusted basis, some or all of the gain may be taxable.

For many depreciable business assets, including farm equipment, the relevant rule is Internal Revenue Code Section 1245. To the extent of prior depreciation deductions, gain on a sale can be treated as **ordinary income** rather than capital gain. In plain English: a tractor bought for business use, depreciated over time, and later sold for more than its remaining basis can generate ordinary taxable income up to the amount of depreciation allowed or allowable, subject to the applicable rules and limits.

"Paid off" describes the loan, not the tax basis. The basis is a tax-accounting figure. It may be low even when the machine still works well and has a strong resale value.

For example, suppose equipment originally cost \$200,000 and the owner has claimed \$160,000 of depreciation. Its adjusted basis is roughly \$40,000 before considering other adjustments. If it is sold for \$100,000, the \$60,000 gain may be Section 1245 ordinary income, subject to the detailed rules. The actual tax result depends on the asset's records, sale terms, and the taxpayer's circumstances.

Equipment sales generally do not belong on Schedule F as ordinary farm receipts. Schedule F is used to report farm income and expenses; sales of business property are generally reported on Form 4797. A preparer should confirm the right reporting based on the facts. Keeping the two concepts distinct helps prevent a bookkeeping entry from hiding a taxable gain.

Start With the Likely Sale, Not a Tax Gadget

Before choosing among recapture planning strategies, build a realistic timeline. Is the retiring farmer planning to sell equipment next year? Will a successor buy it over several years? Is the family likely to hold it until death? Could the operation stop using it, trade it in, or sell it to a related business?



Each path has different tax and business consequences. A plan that postpones a sale may help cash flow, but it does not automatically erase tax. A transfer that appears tax-free may shift basis or create other consequences. And a strategy that saves tax on paper can be a poor fit if it leaves the successor short of working [carryover basis after gifting](#) capital or forces a sale at the wrong time.

Farm Tax Planning Safe Steps

1. Gather the depreciation records

Collect purchase documents, trade-in records, depreciation schedules, prior tax returns, and details of any business-use changes. Do not rely only on the fixed-asset total in accounting software. Confirm original cost, depreciation claimed or allowable, current adjusted basis, ownership, and how the asset was used.

2. Make a likely-sale list

For each major asset, estimate who may sell it and when. Include equipment, breeding livestock, buildings, and land, because different property can follow different tax rules. Compare likely sale value with adjusted basis and note whether the buyer may be a family member or related entity.

3. Model more than one timing option

Ask your tax adviser to compare a sale this year, a sale in a later year, and a transfer at death where relevant. Include federal and state income taxes, estimated payments, other income, and the farm's cash needs. A tax projection is more useful than a guess based on last year's return.

4. Coordinate the tax plan with the operating plan

Decide who needs the asset, who will pay for it, and whether the successor can afford the purchase without weakening the business. Put the agreed terms in writing. A sale price, payment schedule, and allocation among assets can have tax consequences and should be reviewed before signing.

5. Work with an agriculture accountant and the rest of the advisory team

Work with an agriculture accountant who understands farm depreciation, entity ownership, and the family's records. Bring in an attorney when documents or ownership changes are involved, and a financial adviser or lender when cash flow and financing matter. Ask the team to explain both the tax cost and the non-tax trade-offs.

Options to Evaluate—Not Automatic Fixes

Planning choice What it may help address What to check before acting Timing a sale May help coordinate taxable income with the farm's other income and cash needs. Tax rates, payment timing, market conditions, and whether delaying the sale is practical. Installment sale May spread some eligible gain as payments are received. Section 1245 recapture generally is recognized in the year of sale even if payments arrive later. Review the contract and financing risk. Gift during life May move ownership to a successor as part of a broader plan. A gift generally does not give the recipient a fresh fair-market-value basis. Review gift-tax, control, creditor, and successor-sale consequences. Transfer at death Inherited property generally receives a basis tied to fair market value at death, subject to exceptions and applicable rules. Do not assume this eliminates all tax. A later sale can still create gain, and estate, state, ownership, and valuation issues require review. Equipment trade or replacement May fit an operational replacement plan and affect current-year deductions. Most equipment exchanges no longer qualify for like-kind exchange deferral under Section 1031. Review the sale, purchase, and depreciation treatment first.

The table is a starting point, not a menu of guaranteed tax savings. In particular, an installment contract does not necessarily spread Section 1245 recapture over the payment period. A gift is not a basis reset. And a trust is not a universal fix: the terms, ownership, basis, and expected sale date matter.

Keep Basis in View When Planning a Succession

One of the most consequential decisions is whether the successor receives an asset as a gift during the owner's lifetime or inherits it. A lifetime gift generally carries over the donor's basis under the applicable rules. If the recipient later sells low-basis equipment, the built-in gain and potential recapture do not vanish just because the owner changed.

Property inherited at death generally receives a basis determined under the rules for inherited property, often based on fair market value at the date of death or an available alternate valuation date. Exceptions apply, and the result depends on ownership and other details. That basis adjustment can be important, but it is not a reason to ignore the rest of the plan. The family should weigh income-tax effects alongside estate tax, state law, liquidity, control, and business continuity.

Do not transfer assets simply to chase one tax result. A transfer can affect who controls the equipment, who bears repair costs, whether the successor qualifies for financing, and what happens if the next generation changes plans. The right sequence is to identify the likely seller, establish the basis, then compare options.

Use Good Information, Not Tax Folklore

Farm media and learning tools can help families ask better questions, but they do not replace tailored tax advice. AGDAILY covers agricultural news and issues that may prompt useful conversations about farm operations and succession. Instaread offers audio summaries, and its audio player can be convenient for listening while driving or doing chores. Use those resources to build your question list—not to make a transfer or sale decision without reviewing the actual tax records.

Keep the source documents behind every number. An old equipment invoice, a trade-in allowance, a year of partial business use, or an overlooked depreciation adjustment can change the calculation. If records are incomplete, tell your preparer early. Reconstructing basis after a sale is harder than checking it before one.

When to Get Advice

Talk with a qualified tax professional before signing a sale, gift, installment agreement, entity transfer, or equipment trade. Bring the depreciation schedules and explain the family's expected timeline. Ask for a written comparison that separates the estimated income-tax result from estate-tax considerations and shows cash received, tax due, and basis remaining after the transaction.

There is no safe strategy that makes every recapture bill disappear. There are safer decisions: keep accurate records, identify who may sell and when, model the alternatives, and coordinate tax planning with the farm's succession plan. For many families, those steps do more good than a complicated structure adopted in a hurry.