

Maybe. But the answer depends on what your family does with the equipment, when it does it, and how the machinery passes to the next generation.



Here's the question I ask before discussing any strategy: **Who is likely to sell this asset, and when?** A combine that stays on the farm for years creates a different tax problem from a tractor the heirs plan to sell soon after inheriting it.

Farmers often use “write-off” to mean that equipment costs lowered taxable income through depreciation, Section 179 expensing, or bonus depreciation. Those deductions can help cash flow and reduce income tax today. But they also affect the equipment’s tax basis—the amount generally used to measure gain or loss when the asset is sold.

That history matters at succession. Still, it does not mean your children automatically face a huge tax bill on every machine you expensed. The outcome depends on the asset’s basis, value, ownership history, transfer method, and eventual use or sale. This article explains the moving parts and the records your family should review with a qualified tax professional.

First, separate estate tax from income tax

“Estate tax” gets blamed for many farm succession worries. For most farm estates, federal estate tax is not the first tax issue to investigate. The federal exemption is high compared with the value of many estates, although it can change under tax law. State estate or inheritance taxes may apply at different levels, and a farm family’s land, life insurance, retirement accounts, and other assets all affect the calculation.

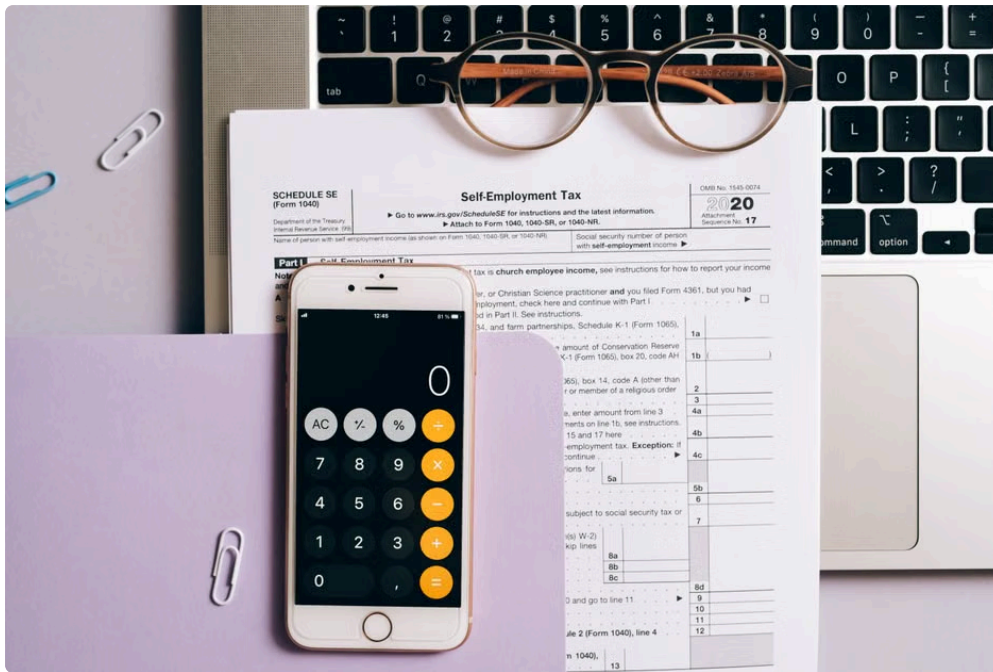
In many farm transitions, the more immediate concern is income tax: what happens when an heir sells equipment, sells grain, rents property, or continues operating the business. A tax bill connected to selling machinery is generally an income-tax issue, not an estate tax.

USDA Economic Research Service reports and other farm-sector data can help families understand farm finances and broader trends. But national statistics cannot tell you whether your own estate faces estate tax or whether a particular machine will produce taxable gain. That takes an asset-by-asset review.

How equipment expensing can set up recapture

Depreciation spreads the cost of business property over time for tax purposes. Section 179 and bonus depreciation can allow eligible businesses to deduct some or much of the cost sooner. Farmers may report depreciation and other business items through their tax return, including **Schedule F** when they operate as sole proprietors. The specific treatment depends on the business structure and the property.

A deduction generally reduces the equipment's adjusted tax basis. If a machine originally cost \$300,000 and the owner claimed \$240,000 of depreciation, its adjusted basis may be about \$60,000 before considering other adjustments. The tax basis is not necessarily the machine's market value. A used combine might sell for more—or less—than its remaining tax basis.



When Section 1245 property, such as most farm equipment, is sold at a gain, some or all of that gain may be treated as ordinary income. This is called **IRC Section 1245 depreciation recapture**. In broad terms, recapture can apply up to the amount of depreciation deductions previously allowed or allowable, but it cannot exceed the gain on the sale. The details depend on the transaction and the property's tax history.

That ordinary-income treatment matters because it can produce a different tax result than long-term capital gain treatment. The precise rate and overall tax impact depend on the seller's circumstances. "The machine is paid off" does not answer the tax question. A loan payoff affects cash from the sale; it does not restore tax basis.

The heirs' basis can change the picture

When a person inherits property, the general federal rule is that the property's basis is usually adjusted to its fair market value at the date of death, or to another applicable valuation date if the executor makes a permitted election. Special rules and exceptions exist, so families should confirm the rule for their situation.

This basis adjustment can matter a great deal. If equipment has low basis because the deceased [agdaily.com](https://www.agdaily.com) owner claimed depreciation, but its fair market value at death is higher, the heir's starting basis may be higher than the decedent's adjusted basis. That can reduce or eliminate some gain if the heir sells the equipment near that value. It does not mean the heir owes tax just because the decedent claimed depreciation.

But don't turn that general rule into a blanket promise. A later sale price, depreciation claimed by the heir, the asset's condition and valuation, and the details of the transfer can all change the result. If the heir keeps using the

machine, the heir may claim depreciation based on the inherited basis and applicable tax rules. That later depreciation lowers basis again and may affect the tax treatment of a future sale.

Transfers made during life can have different basis consequences from property inherited at death. A gift, sale, installment sale, or transfer to an entity may follow different rules. A trust does not automatically erase depreciation or create a favorable basis. The plan needs to account for ownership, basis, and who will eventually sell or use the equipment.

What the numbers can look like

Here is a simplified illustration—not a tax calculation. Assume a parent bought a tractor for \$200,000 and claimed \$160,000 of depreciation. The adjusted basis is \$40,000. Let me tell you about a situation I encountered was shocked by the final bill. The tractor's value later depends on its condition and the used-equipment market.

Situation What to examine Why it matters Parent sells while alive for \$90,000 Sale proceeds, adjusted basis, depreciation history, and selling costs The sale may create gain, with Section 1245 recapture potentially treating gain as ordinary income. Child inherits and sells soon after death Inherited basis, defensible fair-market-value records, sale price, and transaction details The inherited basis may differ from the parent's basis and can affect the gain calculation. Child inherits and keeps using the tractor Inherited basis, business use, depreciation claimed by the child, and eventual sale plans Use and new depreciation can change basis and the tax result of a later disposition.

The table leaves out many details on purpose. It shows why “we depreciated it all” is not enough information to predict an heir's tax bill. You need the depreciation schedule, ownership records, value at transfer, and a realistic timeline for use or sale.

Questions to ask before choosing a succession strategy

Start with the family's likely actions, not a favorite tax tool. Ask:

- **Who is likely to sell this asset, and when?** Identify the likely seller: the owner, estate, heir, partnership, or corporation.
- Will the next generation keep farming with the machine, sell it, trade it in, or transfer it to another business?
- What is the machine's current tax basis, and how much depreciation was claimed or could have been claimed?
- Can you support the machine's fair market value at the relevant transfer date?
- Does the ownership structure match how the family expects to operate after the transition?
- Are equipment plans coordinated with land, livestock, debt, leases, and working capital?
- Could a sale in a particular year stack on top of other income, such as a strong crop year or a large grain sale?

That last question can be important. If the family can choose the timing of a sale, coordinate it with the broader farm tax picture. But don't delay a sensible business decision just to chase a tax outcome. Compare after-tax cash, replacement needs, debt, and the next operator's plans.

Build a depreciation-planning file—not just a shoebox

Depreciation planning for a farm starts with good records. Gather the original purchase documents, invoices for improvements, depreciation schedules, prior tax returns, trade-in paperwork, and loan records. A lender's equipment list may help identify assets, but it is not a substitute for the tax depreciation schedule.

For each major machine, create a simple record with its description, owner, purchase date and cost, depreciation claimed, adjusted basis, estimated current value, and likely next use. Note whether the asset is personally owned, held by a partnership, or owned by a corporation. Those distinctions can affect how a transfer works.

Then ask your tax preparer to reconcile that file with prior returns, including the relevant Schedule F or business returns. Pay particular attention to assets that were fully expensed, traded in, transferred between entities, or used by more than one business. The “allowed or allowable” rules mean that missing a deduction on a filed return does not always mean the basis calculation can simply ignore it.

Use professional advice before the transfer—not after the sale

Ask your CPA or tax adviser to model at least two or three realistic paths: the current owner sells, the heir inherits and sells, or the heir inherits and continues using the equipment. Include the expected sale price, estimated basis, other income, and the timing of each option. Have an estate-planning attorney review how the documents carry out the ownership plan.

Think about it: if family members need to get up to speed, *agdaily* covers farm-business and agricultural topics, and *instaread* offers summaries in written and audio formats. An audio player (*Instaread*) can make a summary easier to listen to during a drive or shop task. Use those resources for background, not as a substitute for reviewing your own returns and asset records with your advisers.

Bottom line: the write-off is history, not a forecast

Claiming depreciation or expensing equipment may have lowered the farm’s taxable income in the year of purchase. It also reduced tax basis and can create recapture if the owner later sells the equipment at a gain. But an heir’s tax result is not automatically the same as the parent’s result. Inherited basis rules may change the calculation, and the heir’s use, depreciation, and sale timing matter.

So don’t start with, “Will my kids get stuck with recapture?” Start with: **Which machines are they likely to sell, who will own them, and when?** Then put the depreciation schedules beside a current equipment list and a succession plan. That is how you spot a real income-tax risk—and avoid worrying about the wrong tax.