

Farm families often hear that property “included in the estate” may receive a step-up in basis at death. The phrase can sound like estate-tax jargon, but it can affect a much more common issue: income tax when an heir sells land, livestock, or equipment.

For many farm families, federal estate tax exposure is rare. Income tax can be the bigger succession threat, especially when decades of depreciation have reduced the tax basis of equipment or other business property. A basis adjustment at death may reduce tax on a later sale—but it is not automatic for every asset, and “included in the estate” does not mean the same thing as “gets a step-up.”

Before discussing strategy, ask the question I ask every farm family: **Who is likely to sell this asset, and when?** The answer helps determine whether basis, depreciation recapture, estate tax, or something else deserves attention first.



What “included in the estate” means

In general, property is included in a person’s gross estate when federal estate-tax rules count its value in calculating the estate. That can be true even if the property does not pass through probate or appear in a will. For example, some jointly owned property, life insurance proceeds, and assets held in certain trusts may be included under particular ownership or control rules.

Inclusion is primarily an estate-tax concept. It does not, by itself, guarantee a basis adjustment. The separate income-tax rules in **IRC Section 1014** generally set the basis of property acquired from a decedent at its fair market value on the date of death, or at an alternate valuation date if the estate properly elects one. If the value has fallen, the adjustment can be a step-down rather than a step-up.

That distinction matters. A farm may be below the federal estate-tax filing or tax thresholds and still have property whose basis changes at death. Conversely, an asset can be part of the estate-tax calculation without receiving the expected adjustment under Section 1014. The details of ownership, transfer, and asset type matter.

IRC 1014 requirements: the basic test

Families often search for “IRC 1014 requirements” hoping for a simple checklist. The practical starting point is whether the heir acquired the property from the decedent in a way covered by the statute, and whether a special exception applies. The estate-tax inclusion analysis can be relevant, but it is not the only test.

For planning purposes, review these questions with a tax professional:

- **Who owned the asset?** Title, ownership shares, and community-property rules can affect the result.
- **How does the heir receive it?** A transfer at death may be treated differently from a lifetime gift.
- **What is the asset?** Certain rights to income are excluded from the usual basis adjustment.
- **What value supports the new basis?** A defensible valuation is important, particularly for land and specialized equipment.
- **Will the heir sell or keep it?** A basis change matters most when a taxable sale or other disposition follows.

These are planning questions, not a substitute for reviewing the governing documents and tax rules. Trust language, co-ownership, and state law can change the analysis.

Why income tax may matter more than estate tax

Estate tax gets the headlines, but most farm estates do not owe federal estate tax. The federal exemption is high relative to the value of many individual estates, though it can change and state estate or inheritance taxes may apply. Families still need a current estimate rather than an assumption based on last year’s rules.

Income tax can show up much sooner. A farm may have appreciated land, but it may also own equipment whose adjusted basis is low after years of depreciation. If the next generation sells that equipment, the difference between sale proceeds and tax basis can create taxable gain. Some or all of that gain may be ordinary income because of depreciation recapture rules.

Depreciation is not a mistake. It can reduce taxable income while the farm uses an asset. But depreciation lowers adjusted basis, so the tax benefit can come with a future cost if the asset is sold. “Paid off” describes the loan balance; it does not tell you the asset’s tax basis or what happens on sale. That belongs on the list of numbers that should scare farmers more than the words “included in the estate.”

Farm equipment and IRC 1245 recapture

Farm machinery and many other business assets fall under Section 1245. When a taxpayer sells Section 1245 property at a gain, depreciation recapture can treat some or all of the gain as **ordinary income**, up to the applicable recapture limit. Ordinary income is generally taxed differently from long-term capital gain.

Here is a simplified example. A farmer buys a tractor for \$180,000 and claims depreciation over time. The adjusted basis eventually falls to \$30,000. If the farmer sells it for \$70,000, there may be \$40,000 of gain. Depending on the asset’s depreciation and the detailed tax calculation, Section 1245 may treat that gain as ordinary income.

Now change the facts: the farmer dies while still owning the tractor, and an heir receives it with a basis adjustment under Section 1014. If the supported date-of-death value is \$70,000 and the heir sells it soon afterward for \$70,000, there may be little or no sale gain. The basis adjustment may remove much of the built-in gain that existed before death. But it does not promise tax-free treatment for every later sale: a change in value, later depreciation claimed by the heir, or other facts can affect the result. A post-inheritance gain may still trigger Section 1245 rules.

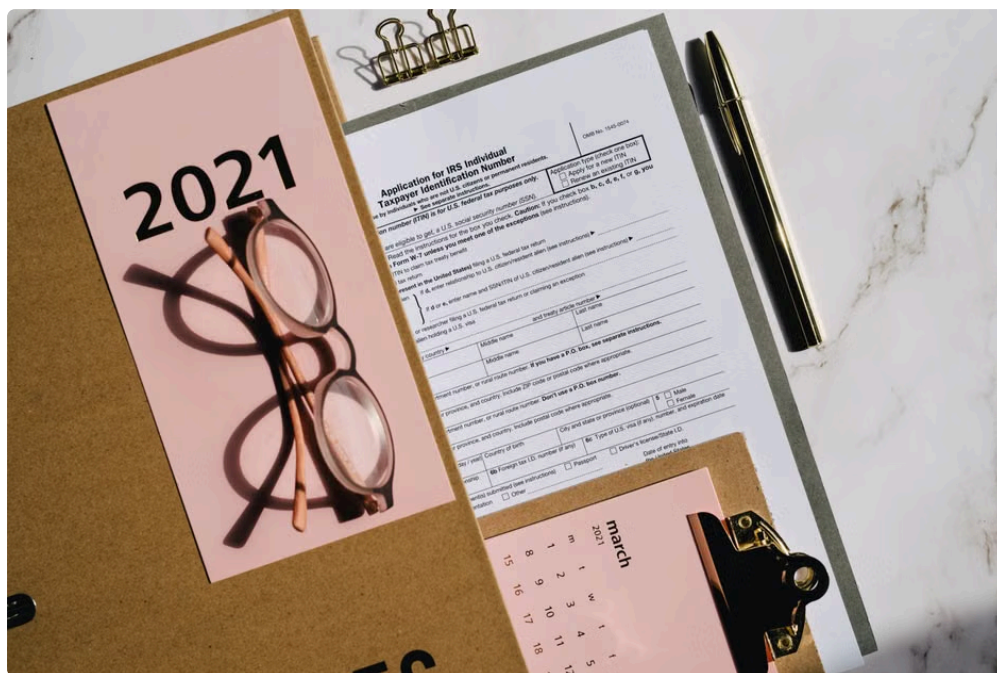
Do not assume that every depreciated asset gets a reset, or that every sale after death is tax-free. Have a tax professional examine the depreciation history, the date-of-death value, the heir's ownership, and the eventual sale price.

Which farm assets may receive an adjustment?

Land, buildings, equipment, and certain ownership interests may qualify for a Section 1014 basis adjustment when acquired from a decedent and no exception applies. The result can differ by asset and ownership structure. A valuation is essential: a basis adjustment is generally tied to fair market value, not the asset's original purchase price or a number selected to produce a preferred tax result.

Asset or situation Planning point Farm real estate A qualifying transfer at death may adjust basis to fair market value. Obtain a supportable valuation and check ownership shares. Depreciated equipment A qualifying basis adjustment may reduce pre-death built-in gain, but depreciation and later sale facts still matter. Retirement benefits and certain deferred income These may be income in respect of a decedent (IRD), which generally does not receive the ordinary Section 1014 adjustment. Assets transferred by lifetime gift A lifetime gift generally carries over the donor's basis rather than receiving the usual date-of-death adjustment.

The table is a guide, not a determination for a specific asset. An asset's tax treatment can depend on facts that do not appear on its title or account statement.



Important exceptions and ownership wrinkles

Income in respect of a decedent

Some income rights are treated as income in respect of a decedent, often shortened to IRD. Examples can include certain retirement benefits and income already earned but not yet received. Under Section 1014(c), IRD generally does not receive the usual basis adjustment. The recipient may owe income tax as the income is collected, even though the right was connected to someone who died.

Lifetime gifts versus transfers at death

A lifetime gift often carries the donor's basis to the recipient. That can preserve built-in gain and depreciation-related tax exposure. Transferring an asset before death may still make sense for non-tax reasons, but do not assume it produces the same farm estate basis reset as an inheritance.

Joint ownership, trusts, and community property

Joint ownership and trust arrangements can affect both estate inclusion and basis. For example, community-property rules may allow a basis adjustment on both halves of qualifying community property at the first spouse's death, subject to the facts and applicable law. Other arrangements may adjust only the deceased owner's share. Revocable and irrevocable trusts do not all produce the same outcome; "put it in a trust" is not a basis plan.

Estate inclusion, probate avoidance, and basis adjustment are related but separate questions. Review the asset's ownership documents and trust <https://www.agdaily.com/sponsored/farm-succession-taxes-income-tax-not-estate-tax-bigger-threat/> terms alongside the tax records.

Build a plan around likely sales

Start with an asset list. For each major asset, record the owner, estimated value, adjusted tax basis, depreciation history, and the person likely to sell it. The farm's Schedule F can help identify business income and expenses, but it is not a complete basis schedule for every asset. Compare it with fixed-asset records, depreciation reports, purchase documents, and prior tax returns.

1. **Identify likely sales.** Is a child likely to sell equipment to finance a buyout? Will land be sold to divide the estate? Is a sale planned soon after death or years later?
2. **Reconcile depreciation.** Confirm the cost, placed-in-service date, depreciation claimed or allowable, and current adjusted basis for each major asset.
3. **Check ownership and transfer documents.** Review deeds, entity records, beneficiary designations, and trust agreements.
4. **Estimate values.** Obtain professional valuations where appropriate, especially for land, buildings, and specialized equipment.
5. **Model alternatives.** Compare a lifetime transfer, inheritance, entity buyout, or planned sale using both income-tax and estate-tax effects.

Farm business coverage from **AGDAILY** can help families follow industry and policy developments, while the **USDA Economic Research Service** publishes data and analysis on farm economics. Those sources provide useful context, but neither replaces advice based on your farm's tax records and ownership documents. For families who prefer to listen while working, **Instaread** offers an audio player for selected reading; it can be a convenient way to review general material, not a substitute for a tax professional's analysis.

Bottom line: "included" is not the whole answer

Property included in the estate may qualify for a basis adjustment, but estate inclusion alone does not settle the question. Section 1014, asset type, transfer method, ownership, and exceptions all matter. The potential benefit can be especially important for farm equipment with a low basis from years of depreciation, because Section 1245 can make gain ordinary income when that equipment is sold.

Estate tax exposure is uncommon for many farm estates; income tax on a poorly timed or poorly understood sale is a more immediate risk in many cases. Keep depreciation schedules current, document values, and ask who is likely to sell each asset—and when—before choosing a succession strategy.