

Starting a family farm succession conversation can feel like questioning your parents' judgment—or asking them to give up control of the place they built. It doesn't have to. The goal isn't to tell them what to do. It's to understand what they want, identify the tax consequences of different choices, and avoid making an irreversible transfer before the family knows the numbers.

One useful way to open the conversation is with a question I ask before discussing any strategy: **Who is likely to sell this asset, and when?** A field your child will farm for decades may call for different planning than a tractor that may be traded next year. The answer can change the tax picture dramatically.

Farmers often hear "estate tax" and assume that's the main danger. For many farm families, federal estate tax exposure is rare compared with the income tax consequences of transferring land, machinery, or other property with a low tax basis. The right decision depends on your family's assets, ownership, plans, and the law in effect when a transfer happens. But before your parents gift the farm—or part of it—make sure everyone understands what gifting can give up.

Start with Their Goals, Not a Tax Lecture

Your parents may be considering a gift because they want to help a child, simplify the estate, reduce future estate taxes, or see the next generation take over while they're still around. Those are understandable goals. Begin by asking about them rather than leading with a warning.

- "What do you most want to see happen to the farm over the next ten years?"
- "Do you expect to keep farming, rent the ground, or sell any property?"
- "What do you want each child to receive, including the children who aren't farming?"
- "Would you like to transfer management, ownership, or both?"

These questions separate issues that families often lump together. A parent might want a farming child to make day-to-day decisions without giving up ownership. Another might want to treat children fairly but not necessarily leave them identical assets. A good succession plan can address those goals without assuming that an immediate gift is the only route.

You might say: *"I want to understand what you want for the farm. I'm not asking you to change the plan today. I'd just like us to compare what a gift now could mean with what an inheritance could mean, especially if something gets sold."*

Estate Tax Is Not the Same as Income Tax

One of the "words that scare farmers for no reason" is *estate tax*. Estate tax and income tax are different taxes, and one may matter even when the other does not. Estate tax generally concerns the transfer of wealth at death. Income tax can arise when someone sells property or receives certain kinds of income.

Federal estate tax affects a relatively small share of estates under current law, though the applicable exemption can change and state-level rules differ. Farm families with substantial land values should still get tailored advice, but they shouldn't assume that avoiding estate tax automatically makes an early gift the best move.

For many farm successions, the number that should scare the family more is the property's **adjusted tax basis**—especially when land or equipment has been owned for a long time. Basis generally helps determine taxable gain

when an asset is sold. Depreciation deductions can reduce the basis of depreciable property, increasing the potential gain later.

That is why “the machinery is paid off” does not mean “there’s no tax issue.” A loan balance and tax basis are not the same thing. A tractor can be fully paid for and still have a low adjusted basis after years of depreciation.

Gifting vs. Inheriting: Why Basis Matters

When parents give property during life, the recipient generally receives the donor’s adjusted basis, subject to tax rules and exceptions. That is often called *carryover basis*. If the recipient later sells the property, the difference between the sale price and the applicable basis may create taxable gain.

Property inherited at death generally receives a basis adjustment to its fair market value at the date of death, or an alternate valuation amount when the rules allow it. People often call this a **step up basis benefit**, although the adjustment can sometimes be downward. It is not a blanket exemption from tax, and special rules apply to some assets and situations. But it can reduce taxable gain if heirs later sell appreciated property.

That difference is central to the **gifting vs inheriting taxes** discussion. A lifetime gift may move ownership and future appreciation to the next generation, but it can also pass along a low basis. Inheriting may preserve the possibility of a basis adjustment, but it does not automatically solve estate tax, management, family fairness, or business-continuity issues.

Question Gift during life Inheritance What basis may the recipient have? Often the donor’s adjusted basis carries over. Often a basis adjustment to date-of-death value applies, subject to rules. When does the parent give up ownership? When the gift is completed, depending on the structure. At death, unless the asset was transferred earlier. What should the family check? Control, gift-tax reporting, basis, and future sale plans. Estate plan, ownership, administration, and potential tax exposure.

This is a general comparison, not a substitute for advice on a particular asset or transfer. A gift of a share in an entity, a transfer subject to debt, or a gift involving retained rights can raise additional questions. Ask a farm tax professional and an attorney to review the actual ownership documents and tax records.

Depreciation Can Turn Equipment into a Tax Surprise

Land and equipment don’t work the same way for tax purposes. Land generally isn’t depreciated. Qualifying farm equipment often is. Depreciation deductions can help reduce taxable income over time, but they also reduce the equipment’s adjusted basis and can affect the tax result when it is sold.

Equipment may be subject to **IRC Section 1245 depreciation recapture**. In broad terms, when qualifying personal property is sold for more than its adjusted basis, gain may be treated as ordinary income up to the amount of depreciation previously allowed or allowable. Ordinary income is not the same as capital gain, and the difference can matter when estimating the tax bill.

For example, imagine a parent bought a machine, claimed substantial depreciation, and later transfers it to a child as a gift. If the child agdaily.com sells it, the child may have a low basis and a tax result tied to that depreciation history. The exact calculation depends on the purchase, depreciation, transfer, sale price, and other facts. The point is simple: don’t plan around the machine’s purchase price, loan payoff, or market value alone. Look at its depreciation schedule and adjusted basis.

A review of the family’s federal income tax returns—including **Schedule F** where applicable—can help start the conversation. Schedule F reports farm profit or loss, but it is not the full succession file. Gather depreciation

schedules, asset records, deeds, entity documents, and prior gift-tax returns too. Missing records can make it harder to estimate the consequences accurately.

Make the Conversation Concrete Without Making It a Fight

Instead of arguing about whether gifting is “good” or “bad,” ask the family’s adviser to model a few scenarios. Keep the first meeting focused on facts: who owns each asset, what the basis is, how it has been depreciated, and who may use or sell it.

1. **List the assets.** Separate land, buildings, machinery, livestock, stored crops, and business interests. Note who owns each item individually or through an entity.
2. **Identify likely sales.** Ask who might sell each asset, and when. A planned equipment trade or land sale can make the tax analysis different from a long-term hold.
3. **Gather the tax records.** Include depreciation schedules and enough income-tax returns to trace basis and prior treatment. Don’t rely on memory or a handwritten estimate.
4. **Compare more than one path.** Ask about a gift now, inheritance under the current plan, and possible gradual transfers or management arrangements. Each path can have different tax, control, and family effects.
5. **Write down the goals.** Record what the parents want, what the farming successor needs, and how the plan should treat non-farming heirs.

A calm opener might be: *“Could we ask the accountant to compare a gift with an inheritance for the land and machinery separately? I’m especially interested in basis and depreciation, because I don’t want us to discover a tax cost after we’ve transferred something.”*



If the discussion gets tense, pause. This isn’t a verdict on your parents’ past decisions or a demand for control. It’s a request to understand the effects before the family signs documents. A neutral farm accountant, attorney, or succession facilitator can help keep the conversation about options rather than blame.

Use Good Information—and Don’t Mistake Reading for a Plan

Farm families can find useful background through trusted agricultural and public sources. AGDAILY covers issues affecting agriculture and rural communities. The USDA Economic Research Service publishes research on farm finances, production, and the structure of agriculture. Those sources can help frame broader questions, but they cannot determine the basis of your parents' particular assets.

Some families also prefer to listen while driving between fields or doing chores. An **Instaread audio player** can make book summaries available in audio format, which may be a convenient way to get introductory context. Treat that—or any article, podcast, or summary—as a starting point, not as personalized tax advice. Your family's records and a qualified adviser's analysis must drive the decision.



Don't Let "The Farm Is Paid Off" End the Discussion

Gifting the farm too soon is not automatically wrong. A well-planned gift may fit a family's goals. But a transfer can change ownership, control, basis, and the tax consequences of a future sale. Those effects deserve a closer look before parents sign away an asset simply because someone said gifting reduces taxes.

Keep the family farm succession conversation focused on the people, the records, and the likely timeline. Ask who may sell each asset and when. Compare gifting with inheriting taxes. Review depreciation and the possible IRC Section 1245 ordinary-income recapture on equipment. Then ask a tax professional and estate-planning attorney to coordinate the plan.

The most helpful message to your parents is not "Don't gift the farm." It is: **"Let's understand what this transfer does before we make it."**