

Often, yes—but only for the right property, in the right transfer, and if the heir understands what happens next. When qualifying farmland passes from a deceased owner to an heir, federal tax law generally gives the heir a new income-tax basis tied to the land's fair market value at the owner's death. That can eliminate decades of pre-death appreciation from the heir's future capital-gains calculation.

That is the basic idea behind a **step up basis land gain reset**. But “the gain disappears” is shorthand, not a complete succession plan. The result can change if land is gifted during life, held in certain trusts, subject to special valuation rules, or sold after the heir takes ownership. And land is only one part of a farm balance sheet. Equipment, buildings, grain, livestock, and the operation's tax records each need their own analysis.

Before discussing a strategy, ask the question I ask farm families first: **Who is likely to sell this asset, and when?** The answer helps show whether a basis adjustment could matter—and whether the bigger issue is estate tax, income tax, or simply keeping the farm operating.

What “step-up in basis” means for farmland

Basis is generally the tax starting point used to calculate gain or loss. For land, an owner's basis may begin with its purchase price and certain capitalized costs. If the land rises substantially in value over several decades, the owner may have a large built-in gain: the difference between the land's value and its adjusted tax basis.

Under **IRC 1014 farmland** rules, property acquired from a decedent generally takes a basis equal to its fair market value at the date of death, or another applicable valuation date if an alternate valuation election is properly available. For example, land purchased decades ago for \$200,000 might be worth \$1.4 million when its owner dies. If it qualifies for a basis adjustment to that value, an heir who later sells it for about \$1.4 million may have little or no gain from the pre-death appreciation.

That is why people say **built in gain erased at death**. The phrase captures the potential income-tax result for appreciation that occurred before death. It does not mean the land is tax-free in every sense, that estate tax can never apply, or that any future increase in value is also erased.

Situation Typical basis result Planning point Land inherited from an owner who held it until death Generally adjusted to fair market value under IRC 1014 Document the value and ownership at death. Land gifted during the owner's lifetime Recipient generally takes carryover basis, subject to specific rules A gift may transfer the built-in gain instead of resetting it. Land sold after inheritance Gain generally measured from the inherited basis, adjusted for later costs Post-death appreciation can still be taxable.

Estate tax is rare for most farm estates—but income tax may still bite

Farm families often hear “tax at death” and assume the main danger is federal estate tax. For many families, federal estate tax is not the first problem to solve. Federal estate tax generally affects estates above a large exemption, though the exemption amount can change under federal law. Some states also impose estate or inheritance taxes, sometimes at lower thresholds. Families should check the rules in the state where the owner lives and where property is located.

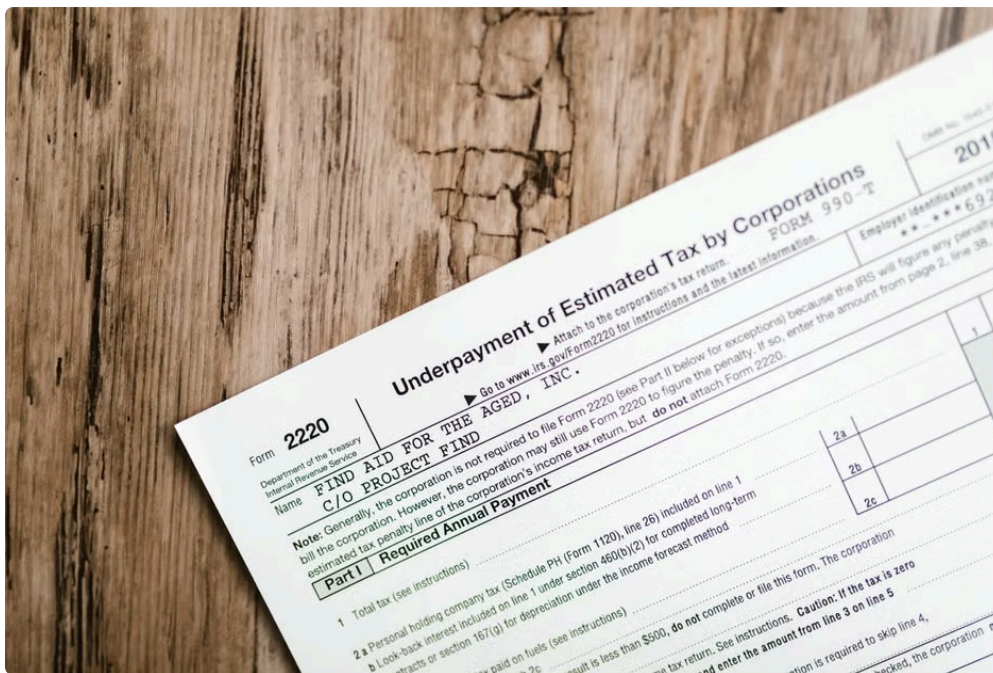
The income-tax consequences of selling farm assets can be much more immediate. Heirs may inherit valuable land, then sell a parcel to pay debt, equalize inheritances, fund retirement, or buy out a sibling. If the land received a basis adjustment, that may substantially reduce tax on the pre-death appreciation. If it did not—because it was gifted, for example—the built-in gain may remain.

That is the distinction worth keeping clear: estate tax is a tax on transferring wealth at death; income tax can arise when an owner or heir sells property, receives certain income, or disposes of business assets. They are different taxes, with different rules. Calling every tax issue “estate tax” can hide the income-tax exposure that is more likely to shape a farm succession decision.

When the land gain reset may not apply as expected

A lifetime gift is not the same as an inheritance

If an owner gives land to a child during life, the child generally receives the donor’s adjusted basis rather than a basis reset to current market value. If the land has appreciated for decades, the child may inherit the tax history along with the acres. A lifetime gift can still make sense for family, business, or estate-planning reasons, but it should not be assumed to erase built-in gain.



Trust ownership needs a close look

“Put it in a trust” is not a complete tax answer. Some trust arrangements can be structured so that property is included in the owner’s estate and may qualify for a basis adjustment at death. Other transfers or trust terms can produce a different result. The trust’s name alone does not tell you what basis an heir will receive. Have the attorney and tax adviser review the actual ownership, trust terms, and transfer history together.

Valuation and records matter

The new basis is not a number to guess at years later. Keep a defensible record of the land’s value at the relevant date, along with deeds, surveys, improvement records, and the decedent’s tax and ownership documents. Separate land from buildings and other assets where appropriate. If the heir sells only part of a farm, the basis must be allocated to the parcel sold; careful records make that work easier.

Special rules may affect valuation or the timing of a transfer. For example, federal estate tax valuation elections and certain qualified-use provisions can have consequences that require professional review. Do not assume a tax benefit based only on a family member’s recollection of what the farm was worth.

What about equipment and depreciation recapture?

Land appreciation gets the attention, but depreciated equipment can create a different kind of tax bill. A farmer who buys a tractor, combine, or other business asset generally deducts its cost over time or through an applicable accelerated deduction. Those deductions reduce the asset's adjusted basis. If the owner later sells the equipment for more than its adjusted basis, some gain may be treated as <https://www.agdaily.com/sponsored/farm-succession-taxes-income-tax-not-estate-tax-bigger-threat/> ordinary income under **IRC 1245**, up to the amount of depreciation previously allowed or allowable under the applicable rules.

That ordinary-income treatment is depreciation recapture. It is not the same as capital gain on farmland, and it can surprise families who think "paid off" means "no tax." A machine can be fully paid for and still have little or no tax basis. If it is sold for a substantial amount, the tax result may be very different from the sale of inherited land.

For qualifying property acquired from a decedent, the basis adjustment may also affect depreciable property, not just land. But that does not make every future equipment sale tax-free. The heir's post-death basis, depreciation claimed after inheritance, sale price, and applicable recapture rules all matter. The heir may be able to begin depreciation from the inherited basis, subject to the rules, and later depreciation deductions can affect the tax result on sale.

In other words, do not assume the decedent's old depreciation schedule automatically follows the equipment unchanged, and do not assume a basis adjustment eliminates every future recapture issue. Review the asset-by-asset history with a tax professional. This is one of the numbers that should scare a farm family more than the vague phrase "estate tax."



Use the farm records you already have

A useful succession review starts with records, not a trust template. Pull the latest depreciation schedules, fixed-asset listings, deeds, purchase documents, and prior returns. A farmer's **Schedule F** can help show the operation's farm income and expenses, but it does not, by itself, provide a complete basis record for every asset. Pair it with depreciation schedules and the underlying purchase, improvement, and ownership documents.

Make an inventory that separates land, buildings, equipment, livestock, stored crops, and business interests. For each asset, note who owns it, how it was acquired, its estimated value, its tax basis if known, and who is likely to

sell it and when. That last question turns an abstract tax discussion into a practical one.

- **Land:** Identify parcels likely to be retained, rented, divided, or sold.
- **Equipment:** Review original cost, depreciation claimed, current value, and expected sale or trade date.
- **Buildings and improvements:** Separate land value from depreciable property and document major improvements.
- **Ownership:** Confirm whether assets belong to an individual, a trust, a partnership, or an LLC.
- **Heir plans:** Discuss whether one heir will farm, whether others need liquidity, and how a buyout might be funded.

Farm business coverage from outlets such as AGDAILY can help families stay engaged with agricultural issues, while the USDA Economic Research Service publishes data and analysis on farm-sector finances and structure. Those resources offer context; they do not replace a review of a family's own title and tax records.

A practical sequence for succession planning

1. **Map the assets and owners.** List each parcel and major business asset, then confirm whose name is on the title.
2. **Estimate basis and value.** Mark figures as confirmed or estimated; do not treat a rough estimate as a tax appraisal.
3. **Model likely transactions.** Compare what happens if an asset is gifted, inherited, retained, rented, or sold.
4. **Coordinate the advisers.** Have the tax preparer, estate-planning attorney, and farm business adviser work from the same asset list.
5. **Revisit the plan.** Values, ownership, family needs, and tax law change. Update the review when a major purchase, gift, sale, or family transition occurs.

Some families use an audio player, including the **Instaread** audio player, to listen to general business or planning material while traveling between fields. That can be a convenient way to learn the vocabulary, but audio summaries are not a substitute for advice based on the family's actual basis schedules and documents.

The bottom line

Yes: when appreciated farmland qualifies for a basis adjustment under IRC 1014, the adjustment can wipe out much of the land's pre-death built-in gain for income-tax purposes. That can be a powerful part of succession planning, especially when an heir may sell land soon after inheriting it.

But the result is not automatic for every transfer, and it does not make all farm assets tax-free. Lifetime gifts can carry over gain. Trust terms and ownership matter. Post-death appreciation can be taxable. Depreciated equipment raises separate questions, including ordinary-income recapture under IRC 1245 when a taxable sale produces recapture gain.

Start with the records, distinguish income tax from estate tax, and ask who is likely to sell each asset and when. That is how a family finds out whether the step-up is a real planning tool—or just a comforting phrase.