

Often, yes—but only for the depreciation your predecessor claimed before death, and only when the equipment receives a new basis under the inheritance rules. In many cases, inherited farm machinery gets a basis generally equal to its fair market value at the previous owner's death. That reset can remove the built-in gain that would otherwise trigger depreciation recapture when the machinery is sold.

But “inheriting erases depreciation recapture” is too broad. What happens depends on how the heir acquired the equipment, its value and tax basis at the transfer, and what the heir does with it afterward. Sell it, keep depreciating it, or transfer it another way, and the tax result can change.



Before discussing strategy, ask: **Who is likely to sell this asset, and when?** That question often matters more than the equipment's age or whether the loan is paid off. Farm families can focus on estate tax exposure when income tax—and the timing of equipment sales—poses the more immediate succession risk.

First, separate estate tax from income tax

Estate tax and depreciation recapture are different taxes. Estate tax concerns the transfer of wealth at death. Depreciation recapture is generally an income-tax issue that can arise when someone sells or otherwise disposes of depreciated business property for more than its adjusted tax basis.

For most farm estates, federal estate tax is not the first problem to solve. The federal exemption is high compared with the value of many individual estates, though the rules and exemption amounts can change, and state estate or inheritance taxes may apply. A family with substantial land, machinery, business interests, or life insurance should still check its exposure. But don't let “estate tax” become a catchall label for every tax concern.

Income tax can be the bigger succession threat. A farm may have little debt and still face tax consequences if the next generation sells assets with low tax basis. That's why succession planning needs to review depreciation records—not just wills, trusts, and the estate's estimated value. USDA Economic Research Service data and analysis can help families put farm finances and structural trends in context, but your own asset-by-asset tax records drive the calculation.

How depreciation sets up recapture

When a farm buys qualifying machinery and claims depreciation, those deductions generally reduce the equipment's adjusted tax basis. Basis is the tax system's measure of the owner's investment in an asset. As depreciation deductions accumulate, adjusted basis usually falls.

Imagine a farmer buys a tractor for \$200,000 and claims \$150,000 of depreciation. Ignoring other adjustments, the tractor's adjusted basis is \$50,000. If the farmer later sells it for \$120,000, the sale produces \$70,000 of gain. Because the tractor is depreciable personal property, some or all of that gain may be treated as ordinary income under IRC Section 1245.

That ordinary-income treatment is what many farmers mean when they talk about "depreciation recapture." It can apply even when the farmer has owned the equipment for years and considers it paid off. Paying off a loan doesn't restore tax basis. The depreciation history still matters.

Farmers usually see depreciation pass through their business tax reporting, including Form 4562, with amounts carried to the appropriate place on Schedule F when applicable. Schedule F is not, by itself, a complete equipment-basis record. Keep the depreciation schedules, purchase invoices, trade-in documentation, and sale records together.

What IRC Section 1245 does

IRC Section 1245 generally applies to depreciable personal property used in a trade or business, including much farm machinery. When the owner disposes of the property at a gain, Section 1245 can reclassify gain as ordinary income up to the relevant depreciation amount. The character of that gain matters: ordinary income may be taxed differently from long-term capital gain.

In simplified terms, the recapture is limited by the gain on the sale and the depreciation adjustments taken or allowable for the property. It is not a tax on the full sale price. For example, selling equipment for less than its adjusted basis generally does not produce Section 1245 recapture, though a loss may have separate tax treatment.

Specific calculations can get more complicated. Trade-ins, prior business-use changes, partial dispositions, related-party transfers, and certain exchanges can affect the result. Don't rely on a rule of thumb when a major equipment sale is on the table.

How IRC 1014 can change the picture at death

IRC Section 1014 generally provides a basis for inherited property tied to its fair market value at the decedent's death, subject to exceptions and special rules. Farm families often call this a "step-up in basis," although the basis can move up or down. If machinery's fair market value is lower than its prior owner's adjusted basis, the new basis may be lower—not higher.

For inherited equipment that qualifies for a Section 1014 basis, the heir's starting basis is generally the value established for the inheritance, rather than the decedent's old adjusted basis. That distinction is central to **step up basis depreciation recapture** and **IRC 1014 farm machinery** planning.

Suppose the tractor in the earlier example is worth \$120,000 when its owner dies. The owner's adjusted basis was \$50,000, but the heir's basis may generally be \$120,000. If the heir sells it for \$120,000, the sale may produce little or no gain—and the decedent's pre-death depreciation ordinarily does not create the same recapture amount for the heir that it would have created for the decedent on a sale before death.



That is the practical answer to the question: **inheriting often eliminates the heir's exposure to recapture tied to the decedent's depreciation, because the inherited basis is reset.** It does not mean the decedent filed a special form to erase a tax bill. The sale generally had not happened, so the decedent had no sale-related recapture to report. The basis rules affect the heir's later sale.

Inherited equipment can still create recapture

A basis reset is not a permanent exemption from depreciation recapture. If the heir claims depreciation after inheriting the equipment, those deductions can reduce the heir's new basis. A later sale at a gain may then trigger Section 1245 ordinary income based on the heir's post-inheritance depreciation and the applicable recapture rules.

For example, assume an heir receives equipment with a \$120,000 basis, uses it in the farm business, and claims \$40,000 of depreciation. The adjusted basis would generally fall to \$80,000. If the heir later sells it for \$110,000, the \$30,000 gain may be subject to Section 1245 recapture, depending on the full facts.

That's the key distinction behind **inherited equipment recapture**: the old owner's depreciation history generally does not simply carry over when Section 1014 applies, but the heir's own depreciation can create a new recapture exposure.

Situation General basis result Recapture planning point Owner sells equipment during life Sale is generally measured against the owner's adjusted basis Section 1245 may treat gain as ordinary income Heir receives equipment at death Basis is generally tied to fair market value at death under Section 1014 Pre-death depreciation generally does not carry over as the heir's recapture pool Heir depreciates inherited equipment, then sells Heir's basis is reduced by applicable post-inheritance depreciation Gain may be recaptured as ordinary income under Section 1245 Equipment is gifted during the owner's life Carryover-basis rules may apply rather than a Section 1014 reset Old depreciation history can remain relevant; get advice before transferring

When the "step-up" assumption can fail or mislead

- **A lifetime gift is not the same as an inheritance.** Gifts generally use carryover-basis rules, so the recipient may inherit the donor's low basis and depreciation history for tax purposes.

- **Not every transfer at death qualifies for the same treatment.** Ownership form, the nature of the property, and special tax rules can affect basis. Confirm who legally owned the equipment and how the transfer occurred.
- **Fair market value needs support.** Machinery condition, hours, attachments, maintenance, and local market evidence can matter. Keep a defensible valuation rather than guessing from an online listing.
- **Depreciation claimed after inheritance changes the numbers.** A heir who keeps the equipment in business may receive new depreciation deductions, which can reduce basis and create future recapture.
- **Income connected to a decedent is a separate issue.** Some rights to income do not receive a basis reset in the same way as inherited property. Don't assume the equipment rules apply to every farm asset or payment.

Plan around the seller and the sale date

The right question is not just, "How much depreciation did Dad claim?" Ask who will own the machine, who will use it, who is likely to sell it, and when. If the surviving spouse expects to sell the machinery soon, that may lead to a different [agdaily](#) review than a plan for an heir to operate it for another decade.

Work through these steps with the farm's tax preparer and succession adviser:

1. **List the equipment and owners.** Note the legal owner, business use, purchase date, cost, and any trade-ins or transfers.
2. **Collect depreciation records.** Review Form 4562 schedules and prior returns, not just the latest Schedule F.
3. **Estimate current value.** Use condition-specific market evidence and document the valuation method.
4. **Map likely sales.** Identify which assets the family may sell, trade, or distribute after a death or ownership change.
5. **Model more than one path.** Compare a sale during the owner's life, inheritance followed by sale, and continued farm use with new depreciation.

AGDAILY coverage can provide useful farm-industry context and practical reporting, but an article or general checklist cannot determine a family's basis. For a quick review of tax and financial material, some families also use an Instaread audio player to listen while traveling between fields or chores. Treat that as a convenience, not a substitute for the actual depreciation schedules and professional advice.

The bottom line

For qualifying inherited machinery, Section 1014 generally resets basis to a value tied to fair market value at death. That often removes the heir's exposure to recapture based on the decedent's pre-death depreciation. But the reset is not guaranteed for every transfer, it does not erase taxes already due for other reasons, and it does not protect the heir from recapture on depreciation the heir claims after inheriting.

So don't let estate-tax worry crowd out the income-tax work. Find the records, confirm the basis, and decide who is likely to sell each asset—and when. That is how farm families avoid confusing "paid off" with "tax-free."

This article provides general information, not tax or legal advice. Basis and recapture depend on ownership, use, transfer method, valuation, and current law. Have a qualified tax professional review the records before transferring or selling farm equipment.