

Before you compare the tax bills, ask the question I ask farm families first: **Who is likely to sell this asset, and when?** A parcel that will stay in the family for decades calls for different planning than land a child expects to sell next year.

The main difference is usually basis. A person who receives land as a gift generally takes the donor's adjusted tax basis. A person who inherits land generally receives a basis tied to its fair market value at the owner's death. That difference can make a sale of inherited land produce much less taxable gain than a sale of gifted land.

This is an income-tax comparison, not just an estate-tax question. Federal estate tax affects relatively few farm estates because the exemption is high, though the applicable amount and state rules should be checked for the year in question. For many families, income tax—including tax on a later land sale and depreciation recapture on equipment—is the more immediate succession-planning threat.

Start with basis, not the sale price

Basis is generally the tax amount used to measure gain or loss. For a sale, the simplified calculation is:

Taxable gain = sale proceeds – selling costs – adjusted basis

The result is not necessarily the final tax bill. The type of asset, how long it was held, the seller's other income, and state law can all matter. But the basis difference is the starting point for a useful **capital gains comparison**.

Question
Gifted land
Inherited land
Typical starting basis
Donor's adjusted basis, subject to special rules
Generally fair market value at the decedent's date of death
What can increase basis?
Qualifying capital improvements and certain adjustments
Qualifying capital improvements and certain adjustments after inheritance
Likely effect when land has appreciated
More built-in gain may carry to the recipient
Pre-death appreciation is generally reflected in the new basis
Key planning concern
Low inherited-from-donor basis can mean a large gain on sale
Accurate date-of-death valuation and records are important

How gifted land is taxed when sold

In a typical lifetime gift, the recipient gets the donor's adjusted basis. This is called **carryover basis**. The recipient does not normally get a new basis equal to the land's value on the date of the gift. If a parent bought farmland decades ago for a modest amount, and the land has since appreciated substantially, that low basis may travel with the gift.

For example, suppose a parent has land with an adjusted basis of \$100,000 and gives it to a child when its fair market value is \$500,000. If the child later sells it for \$600,000, the rough gain is \$500,000 before selling costs and other adjustments—not \$100,000 based on the value when the child received the gift. The actual calculation depends on the records and facts.. Exactly.

There is an important exception when gifted property is sold at a loss. Gift basis rules can use one basis to calculate a gain and another to calculate a loss. Generally, the donor's adjusted basis is used to measure gain, while the fair market value at the time of the gift may be used to measure loss. If the sale price falls between those amounts, the rules can produce neither a taxable gain nor a deductible loss. Do not assume the donor's basis alone resolves every sale.

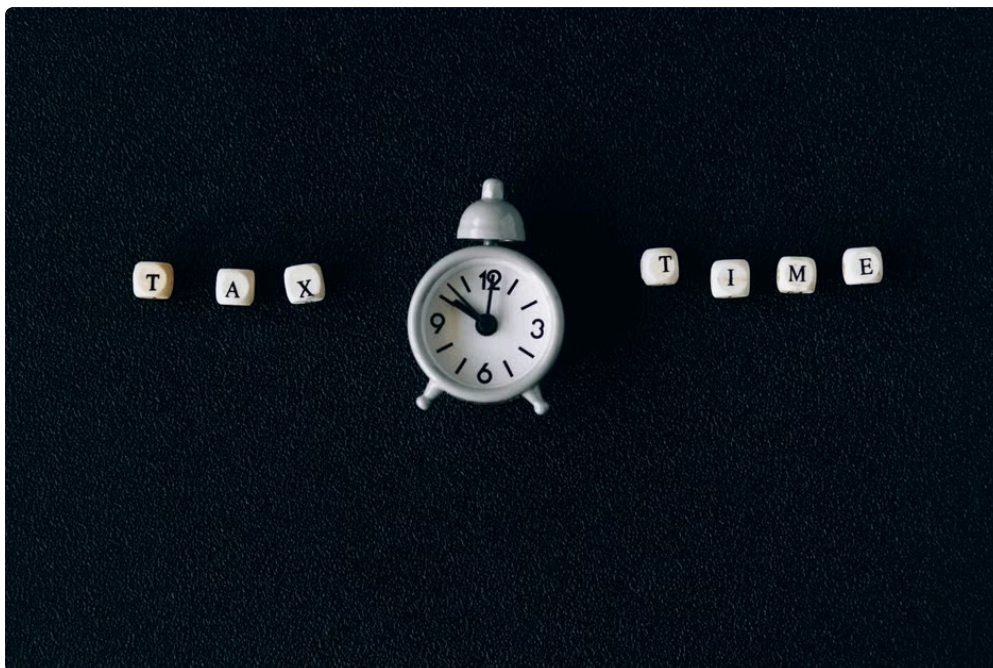
Also check the donor's records. Basis may reflect the original purchase price, later capital improvements, easements, prior sales of part of the property, and other adjustments. A deed proves ownership transferred; it

does not establish tax basis.

How inherited land is taxed when sold

Property inherited from a decedent generally receives a basis equal to its fair market value on the date of death. In some cases, an estate may elect an alternate valuation date, so the estate's tax records matter. This adjustment is often called a **step-up in basis** when the land has appreciated, but it can also be a step-down if its value has fallen.

For example, if land is worth \$500,000 at the owner's death and the heir later sells it for \$520,000, the rough gain is \$20,000 before selling costs and adjustments. Compare that with a lifetime gift carrying a \$100,000 basis: a \$520,000 sale could produce a much larger gain. These figures are illustrations, not a substitute for a parcel-specific calculation.



Inherited property is generally treated as long-term property for capital-gain purposes, regardless of how soon the heir sells it. With gifted property, the donor's holding period generally carries over when the recipient's basis carries over. A tax professional should confirm how the rules apply to the particular transfer and return.

Capital gains comparison: what can change the answer?

Land held for investment or used in a farm business is commonly treated as a capital asset or, in some cases, property used in a trade or business. The classification and reporting depend on how the land was held and used. Do not automatically <https://www.agdaily.com/sponsored/farm-succession-taxes-income-tax-not-estate-tax-bigger-threat/> report a land sale on Schedule F: Schedule F reports farm profit or loss, while a land disposition may need to be reported elsewhere on the return.

Several factors can change the estimated tax:

- **Adjusted basis:** Verify purchase, inheritance, gift, improvement, and prior-disposition records.
- **Selling costs:** Certain costs can reduce the amount realized, subject to the applicable rules.
- **Use and classification:** Investment land, business-use property, and land held for sale to customers can receive different treatment.

- **Federal and state taxes:** Capital-gain rates, ordinary-income brackets, state income tax, and possible net investment income tax can affect the outcome.
- **Installment terms:** A seller-financed transaction may spread recognition of some gain over time, but it does not erase gain and has detailed rules.
- **Other transactions:** A sale can interact with the seller's income, losses, and other tax items for that year.

Use a side-by-side estimate rather than relying on a rule of thumb. AGDAILY can help readers follow agricultural news and business issues, but a general article cannot establish the basis of a specific farm parcel. Ask your tax preparer to model the actual sale before signing a gift deed or listing agreement.

Do not confuse land basis with equipment depreciation

Farmland itself generally is not depreciated. Buildings, drainage, tile, fences, and other improvements may have separate tax treatment depending on what they are and how they were placed in service. Farm equipment is different: depreciation deductions can reduce its adjusted basis over time.



That creates a succession risk families sometimes miss. A tractor can be “paid off” but still have a low tax basis because the owner claimed depreciation. If it is sold for more than its adjusted basis, the sale may trigger depreciation recapture. For qualifying depreciable personal property, **IRC Section 1245 recapture is generally ordinary income** up to the amount of depreciation previously allowed or allowable, subject to the detailed rules. It is not automatically a capital gain just because the equipment is old or the loan is gone.

For example, if equipment cost \$200,000 and its adjusted basis has fallen to \$20,000, a sale for \$80,000 may create ordinary income recapture on some or all of the amount above adjusted basis, depending on the facts. The equipment's payment history does not set its tax basis. Review the depreciation schedule before transferring or selling it.

I remember a project where wished they had known this beforehand.. Schedule F is part of the farm's annual tax picture, but it is not a substitute for reviewing depreciation schedules and asset-sale reporting. Keep a separate list of land, buildings, improvements, and equipment, with each item's basis and tax history.

Estate tax is not the only succession question

Many farm families focus first on whether the estate will owe federal estate tax. That may be a low-probability concern for many estates under current federal exemption levels, although large land values, life insurance, prior taxable gifts, ownership structure, state estate or inheritance taxes, and future law changes can matter. Get advice based on the law in effect for the relevant year rather than assuming either that estate tax is inevitable or that it can never apply.

Income tax can be the bigger issue in a more ordinary succession scenario. A lifetime gift may remove future appreciation from the donor's estate, but it can also pass a low basis to the next generation. Inheritance may provide a basis adjustment, but it raises other questions about control, ownership, family goals, and estate administration. There is no universal "trust fixes everything" answer: a trust's income-tax treatment and basis consequences depend on its structure and the facts.

A practical checklist before transferring or selling land

1. **Identify the likely seller and timing.** Who may sell the land, and is the sale likely soon or decades away?
2. **Find the basis records.** Gather deeds, purchase documents, gift records, estate valuations, improvement invoices, and prior tax returns.
3. **Separate land from improvements.** Identify which assets are land, depreciable improvements, buildings, and equipment.
4. **Review depreciation.** Check depreciation schedules for farm assets and identify potential recapture before a transfer or sale.
5. **Model both paths.** Compare a lifetime gift with inheritance using realistic sale prices, selling costs, federal and state taxes, and likely sale dates.
6. **Coordinate the whole plan.** Have the tax preparer, attorney, and financial or farm adviser work from the same ownership and basis information.

Think about it: for background on farm economics and land trends, the usda economic research service publishes data and analysis that can help frame the market context. It cannot tell you the tax basis of your family's parcel, but it can inform broader planning conversations. If you prefer listening to a summary, use an audio player such as Instaread as a convenient way to review general material; verify tax details with a qualified professional and current IRS guidance.

The bottom line

When appreciated land is sold, **gifted land carryover basis** can leave the recipient with a larger taxable gain, while **inherited land step up basis** can reduce or reset the gain measured after the owner's death. The right **capital gains comparison** depends on the land's documented basis, its value, who will sell it, and when.

Do not make the decision by looking only at estate tax or the farm's debt balance. Check the basis and depreciation schedules, model the likely sale, and weigh the tax result alongside the family's ownership, cash-flow, and succession goals.