

"The equipment is paid off" sounds like a good reason to relax. For tax planning, it can be a reason to ask more questions. A tractor may be debt-free but have little or no tax basis left after depreciation. If the farm sells it, some of the gain may be taxed as ordinary income—not at the more favorable rates people often associate with selling an asset.

That is why basis belongs in succession planning conversations well before a farm transfer, retirement, or sale. Ask an agriculture accountant to connect your records, depreciation schedules, family plans, and likely sale dates. A useful conversation is not just "What is my basis?" It is "Who is likely to sell this asset, and when?"

Below are practical questions to take into an agriculture accountant planning meeting, including what to ask about a farm basis worksheet review and succession tax modeling. The answers depend on your facts and current tax law, so treat these questions as a starting point—not a substitute for individualized advice.

## **First, get clear on what basis means**

Tax basis is generally the amount of investment assigned to an asset for tax purposes. It helps determine gain, loss, depreciation deductions, and—in some situations—the tax result when property changes hands. The starting amount and later adjustments depend on how the asset was acquired and what happened afterward.

For depreciable property, depreciation usually reduces adjusted basis. That can mean substantial deductions during the years you use the property, followed by a larger taxable gain if you sell it for more than its remaining basis. With certain business equipment, Internal Revenue Code Section 1245 can require depreciation recapture as ordinary income, generally up to the amount of depreciation previously allowed or allowable. "Paid off" describes the loan, not the tax basis.

Basis matters for land and other property, too, but the rules and possible tax consequences differ. Ask your accountant to explain each major asset in plain language rather than treating the farm as one number.

## **Ask these questions about your records**

### **1. Do we have a reliable basis for every major asset?**

Request an asset-by-asset review, not just a summary total. Include land, buildings, drainage and irrigation improvements, grain bins, livestock, machinery, vehicles, and other property with meaningful value. Ask which records support each figure and where the records are kept.

Useful documents may include purchase agreements, invoices, closing statements, construction costs, prior tax returns, depreciation reports, and records of improvements. If records are incomplete, ask the accountant to identify what can be reconstructed and what cannot be supported. Here's a story that illustrates this perfectly: made a mistake that cost them thousands.. Don't assume the figure on an old return tells the whole story.

### **2. Can you prepare or update a farm basis worksheet?**

A farm basis worksheet review should show the asset, owner, acquisition date, original cost or other starting basis, depreciation history, adjustments, and current adjusted basis. It should also note ownership changes, such as gifts, inheritances, or transfers between entities.

Ask whether the worksheet reconciles to prior returns and depreciation schedules. If it does not, find out why. Exactly.. An unexplained mismatch can become a problem when the farm sells property, transfers it to a family

member, or settles an estate.

### 3. Are we tracking depreciation that was allowable, even if we did not claim it?

Ask the accountant to check whether depreciation was correctly reported—and whether depreciation that was allowable affects adjusted basis even if the farm did not claim it. Incorrect or missing depreciation entries can complicate future tax calculations. The answer may require reviewing earlier returns and determining whether an accounting-method correction is appropriate.

Bring in the full depreciation schedules, not just the latest Schedule F. Schedule F reports profit or loss from farming, but it does not, by itself, provide a complete basis history for every farm asset. Ask how the accountant ties Schedule F reporting, depreciation records, and asset records together.



## Ask what a sale could cost

### 4. What happens if we sell this equipment?

For each major machine, ask the accountant to compare expected sale proceeds with adjusted basis and estimate the character of any gain. For many depreciable business assets, Section 1245 recapture can turn prior depreciation into ordinary income on a sale. In other words, the tax result may not be a simple long-term capital gain.

Ask for the calculation, including selling costs and any relevant trade-in or exchange facts. Do not assume a trade-in automatically avoids tax. Rules for like-kind exchanges generally do not provide that treatment for equipment, and the facts matter.

### 5. What changes if we sell land, buildings, or livestock instead?

Ask the accountant to separate assets by tax category. Land generally is not depreciated, while buildings and improvements may be. Livestock can have different basis and holding-period considerations depending on how it was raised or purchased. One blanket "farm gain" estimate can hide important differences.

Also ask whether the sale would happen inside an entity or directly by an individual, and whether the entity structure changes the reporting. A farm sale can involve several tax issues at once, including ordinary income,

depreciation recapture, capital gain, and state taxes.

## **6. Who is likely to sell this asset, and when?**

This question should come before choosing a transfer strategy. The answer may be the current operator, a retiring parent, a farming child, or a non-farming heir who plans to sell. Ask your accountant to model realistic timing: sale this year, sale after a planned transfer, or continued use by the next generation.

Timing can change the tax result and the family's cash needs. A plan that works if equipment stays on the farm for 15 years may be a poor fit if the successor expects to sell it in two. Put likely sale dates next to the basis numbers.

## **Ask how a family transfer changes basis**

### **7. What basis would a recipient receive if we gift the asset?**

Ever notice how ask whether a proposed gift generally carries over the donor's basis and what that could mean if the recipient sells soon afterward. A low-basis asset can transfer a future tax bill along with the property. That does not automatically make a gift a bad choice, but it should be part of the comparison.

Ask about the gift's effect on the whole plan, including control, income, eligibility for other benefits, and any gift-tax reporting. Don't compare strategies on tax basis alone.

### **8. How might basis differ if the next generation inherits the asset?**

Inherited property may receive a basis adjustment under the rules in effect at the owner's death, often based on fair market value at that time, but exceptions and special valuation rules can apply. The result can differ significantly from a lifetime gift. Ask your accountant to verify how the rule applies to the specific asset, ownership, and transfer plan.

Do not mistake this for an "estate tax" question alone. Estate tax exposure is rare for most farm estates, though the rules and exemption amounts can change and some families do face exposure. Income tax can be the bigger succession threat in many cases—especially when a family transfers low-basis property or sells heavily depreciated equipment. Ask for separate estimates of potential estate tax and income tax consequences.

## **Ask for succession tax modeling, not just a tax return review**

### **9. Can you model more than one succession path?**

Succession tax modeling should compare real alternatives, such as a lifetime gift, inheritance, sale to a farming child, sale to an unrelated buyer, or a gradual transfer of operations and assets. Ask for estimated tax outcomes under each path and the assumptions behind them.

A useful model may include:

- Current adjusted basis and estimated fair market value for major assets.
- Depreciation history and possible Section 1245 recapture on equipment.
- Federal and state income tax estimates, with caveats about future law.
- Potential estate or gift tax exposure when relevant.
- Cash flow and debt needs for both the current owner and successor.
- Likely sale timing and whether the recipient plans to keep using the asset.

Ask the accountant to show ranges when future sale prices or tax law are uncertain. A model is a planning tool, not a promise of the eventual tax bill.

## 10. What assumptions would make the plan fail?

Ask what happens if commodity prices fall, a successor leaves the farm, a parent needs long-term care, or the family sells sooner than planned. Find out whether a proposed transfer creates a tax cost the [schedule f tax prep](#) farm cannot fund, or whether the plan relies on records that do not exist yet.

Also ask which decisions need input from an attorney, financial planner, lender, or appraiser. Your accountant can identify tax consequences, but a sound succession plan often needs several professionals working from the same asset list and family goals.

## Bring a focused packet to the meeting

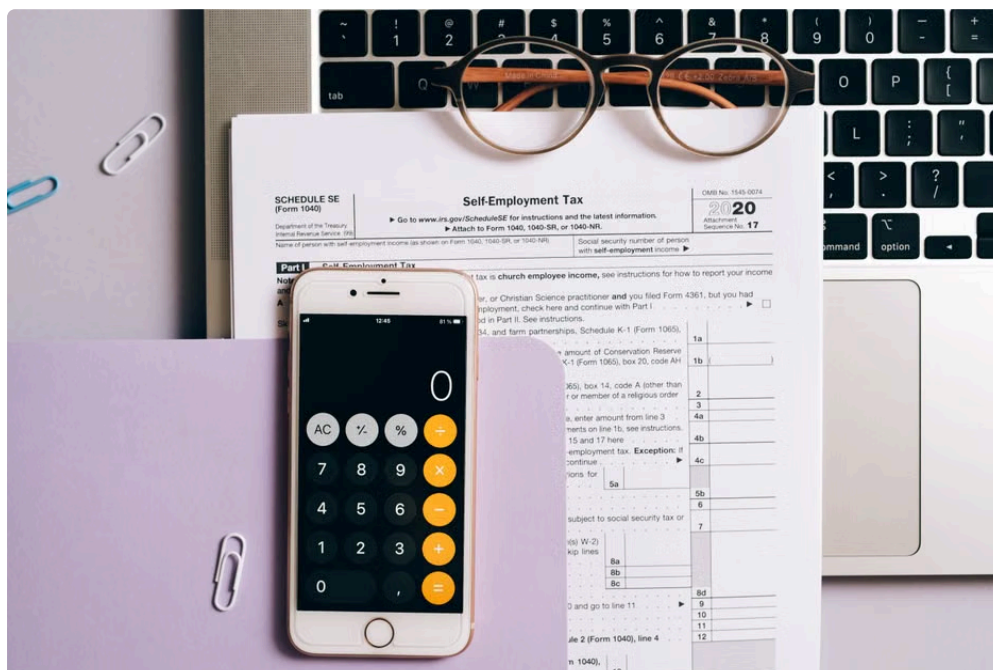
To make the meeting productive, gather:

- Recent tax returns, including Schedule F and related depreciation schedules.
- Equipment and vehicle lists, with purchase dates and expected sale dates.
- Land and building records, deeds, purchase documents, and improvement costs.
- Entity documents and a list of who owns each asset.
- Notes on who farms, who may inherit, and who may sell each asset.
- Any prior appraisals, gifts, inheritances, or family transfer agreements.

If a document is missing, say so. Guessing at basis is not a substitute for identifying the gap.

## Use plain-language resources—but verify the tax details

Farmers often read practical coverage from AGDAILY to keep up with agricultural issues and use the USDA Economic Research Service for broader data on farms, markets, and rural economics. Those sources can help frame business decisions, but they do not replace advice about your specific tax records and ownership structure.



If you like listening while driving between fields, Instaread offers summaries through an audio player. That can make general business and planning ideas easier to fit into a busy day. For tax decisions, take the underlying facts and questions to your accountant rather than relying on a short summary.

## **Bottom line: connect basis to the family's actual plan**

A good agriculture accountant planning conversation identifies the basis of each major asset, explains how depreciation changed it, and estimates what could happen if the asset is sold or transferred. It also distinguishes income tax from estate tax instead of lumping every succession concern under one label.

Start with the records. Then ask: Who is likely to sell this asset, and when? That answer can reveal whether a “paid-off” tractor is a clean handoff—or a future ordinary-income tax bill waiting for the next generation.