

When a farmer dies, the value assigned to land, machinery, livestock, and other property can shape the family's tax bill for years. The central question is often whether an heir receives a new income-tax basis tied to the property's value at the owner's death—and how that value is established.



For many farm families, federal estate tax is not the main succession threat. Income tax can matter more, especially when a successor sells inherited property or equipment. A defensible **fair market value date of death** can help establish the starting point for the heir's basis. But "step-up" is not a magic eraser for every tax problem, and an appraisal does not settle every question automatically.

Before choosing a strategy, ask: **Who is likely to sell this asset, and when?** The answer helps determine which values matter, what documentation to keep, and whether a sale could create capital gain or ordinary income.

What Does Fair Market Value Mean?

For federal tax purposes, fair market value generally means the price property would change hands for between a willing buyer and a willing seller, neither forced to act and both having reasonable knowledge of relevant facts. The exact valuation depends on the asset and its circumstances.

For step-up purposes, the starting point is commonly the property's fair market value on the owner's date of death. Under Internal Revenue Code Section 1014, inherited property generally receives a basis equal to its value at that date. "Step-up" is the familiar term, but the adjustment can also be a step-down if the property's value has fallen below the decedent's basis.

This general rule has exceptions. Certain rights to income that were earned or accrued before death—often called income in respect of a decedent—typically do not receive the same basis adjustment. Ownership structure also matters. A farm held in a partnership, corporation, trust, or jointly owned arrangement can require a closer look at what the decedent actually owned and what passes to the successor.

Why the Basis Can Matter More Than Estate Tax

Estate tax and income tax are separate issues. Estate tax is imposed on an estate that exceeds applicable exclusions, subject to rules, deductions, and possible state taxes. For most farm estates, federal estate tax exposure is uncommon, though the answer depends on the estate's size, applicable law, and planning history. State estate or inheritance taxes may apply at different thresholds.

Income tax is a more frequent concern in farm succession. If an heir sells inherited land, the new basis generally affects the taxable gain. A well-supported value at death may reduce the difference between sale proceeds and basis. A low or poorly documented value can leave heirs facing more taxable gain than necessary.

Depreciation creates another layer. During an owner's lifetime, depreciation deductions generally reduce the tax basis of depreciable property. That lower basis can mean taxable gain when property is sold. For a farm, the relevant property might include machinery, buildings, vehicles, or other depreciable assets. The family's Schedule F is useful for understanding farm income and expenses, but it is not a complete inventory of basis or proof of an asset's date-of-death value.



Equipment deserves special attention. When qualifying depreciated property is sold at a gain, IRC Section 1245 can treat some or all of that gain as ordinary income, up to the applicable depreciation recapture amount. Ordinary income treatment can be less favorable than long-term capital gain treatment. A step-up may reset basis and reduce built-in gain, but it does not guarantee that a later sale will be tax-free. The heir's own depreciation deductions and the sale price matter.

Who Decides the Value?

No single person gets to declare a value and make it unquestionable. The estate's fiduciary—typically an executor or personal representative—has responsibility for administering estate property and filing any required returns. The fiduciary should gather evidence and use a reasonable valuation method. For substantial or complex farm assets, that commonly means hiring a qualified appraiser with relevant agricultural experience.

The appraiser provides an independent opinion; the appraiser does not issue a binding ruling from the IRS. The executor may rely on the report when preparing estate tax filings and records supporting inherited basis. Heirs, accountants, and attorneys may review the work, but they should not simply pick a convenient number.

The IRS can examine a reported value and challenge it. If the parties cannot resolve a dispute, a court may ultimately decide the valuation in a contested tax matter. In other words, the appraiser develops evidence, the

fiduciary reports and documents the position, and the tax authorities—or a court—can scrutinize it.

What Does a Farm Appraisal Need to Cover?

A useful **farm appraisal for estate** purposes should identify what was valued, the valuation date, the ownership interest, the method used, and the information considered. “The farm” is rarely one asset. Land, buildings, machinery, livestock, stored grain, and business interests may have different valuation approaches and tax treatment.

Asset Valuation considerations Why it matters later Farmland Location, soil, drainage, access, comparable sales, and development or lease potential Basis affects gain if an heir later sells the land Buildings Condition, function, age, replacement cost, and contribution to the property Depreciable improvements may need separate basis records Machinery and equipment Make, model, age, hours, condition, and comparable sales Sale gain may involve IRC Section 1245 ordinary-income recapture Livestock and stored commodities Type, quantity, quality, market conditions, and ownership Tax treatment can differ from land and inherited capital assets Entity interests What the decedent owned, governing documents, liabilities, and valuation discounts where appropriate The value of an ownership interest may not equal a simple share of gross farm assets

For farmland, an appraisal should distinguish the value of land from buildings and other improvements where appropriate. For equipment, a list showing make, model, year, serial number, hours, and condition gives the appraiser a stronger starting point than a general estimate. The estate should also preserve titles, purchase records, depreciation schedules, prior appraisals, leases, and entity documents.

Can the Estate Use an Alternate Valuation Date?

Some estates may elect an alternate valuation date for federal estate-tax purposes, generally six months after death, under specific conditions. This is not a free choice for every family and should not be confused with the default date-of-death basis rule. The election is generally available only when an estate tax return is required and the election satisfies statutory requirements, including reducing both the gross estate value and the estate tax. Special timing rules can apply to property sold or distributed during the period.

Because an alternate valuation election may affect both estate tax calculations and the basis of assets passing to heirs, the executor should get tax advice before making it. A lower value might reduce the estate’s reported value but could also give heirs a lower basis, increasing future income tax if they sell.

Step-Up Does Not Fix Every Farm Tax Issue

Families sometimes hear that inherited property gets a step-up and assume every tax liability disappears. That is risky. Property classification, ownership, depreciation, and the way the farm reports income all matter.

- **Depreciation records still matter.** The decedent’s depreciation history helps identify the property and explain its tax records. The heir needs a defensible new basis and must track any depreciation claimed after inheritance.
- **Section 1245 can still matter after inheritance.** If an heir depreciates inherited equipment and later sells it at a gain, depreciation recapture may apply to the heir’s depreciation, subject to the rules and amount of gain. Do not assume the decedent’s old depreciation automatically becomes the heir’s recapture bill after a valid basis adjustment.
- **Some assets do not receive the standard adjustment.** Income in respect of a decedent and certain other property can follow different rules.

- **Entity ownership can change the analysis.** An adjustment to the value of an inherited ownership interest is not always the same as adjusting the basis of every underlying asset.
- **A later sale needs its own review.** Sale price, selling costs, depreciation claimed after death, and the asset's tax classification can all affect the result.

Practical Steps for Farm Families

1. **List assets and ownership.** Identify land, buildings, equipment, livestock, grain, and business interests—and note who owns each one.
2. **Ask who may sell and when.** A near-term equipment sale raises different concerns from land that the next generation plans to keep for decades.
3. **Collect tax records.** Gather Schedule F filings, depreciation schedules, purchase invoices, prior appraisals, titles, and entity records. Schedule F helps describe farm operations, but it does not replace an asset-by-asset basis review.
4. **Choose the right appraiser.** Look for experience valuing the specific property involved. A land specialist may not be the right person to value a fleet of machinery or a complex business interest.
5. **Document the reasoning.** Keep the appraisal, supporting sales data, asset lists, and correspondence with the estate's tax professionals together.
6. **Coordinate valuation and tax reporting.** The estate's attorney, tax preparer, and appraiser should understand which return or basis records the valuation will support.

Use Information, Not Guesswork

Farm families can use agricultural reporting to understand market conditions, but broad market information is not a substitute for an appraisal of a particular parcel or machine. AGDAILY may offer useful farm-industry coverage, while the USDA Economic Research Service publishes research and data on agriculture and rural economies. Those sources can add context; they do not determine the fair market value of a specific estate asset.

For families who prefer listening while driving or working around the farm, an Instaread audio player can make general reading more convenient. Treat that as background education, not individualized tax advice or a valuation report.

The Bottom Line

Fair agdaily.com market value for step-up purposes is generally the property's value at the date of death, established through evidence and reported by the estate's fiduciary. A qualified appraiser can provide critical support, but the IRS may review the number and a court can resolve a dispute.

Estate tax exposure is rare for many farm estates, but income tax deserves close attention. Depreciation lowers basis during an owner's life, and later equipment sales can trigger ordinary income under IRC Section 1245. A careful valuation, complete depreciation records, and a clear plan for who will sell each asset—and when—can help the next generation avoid costly surprises.