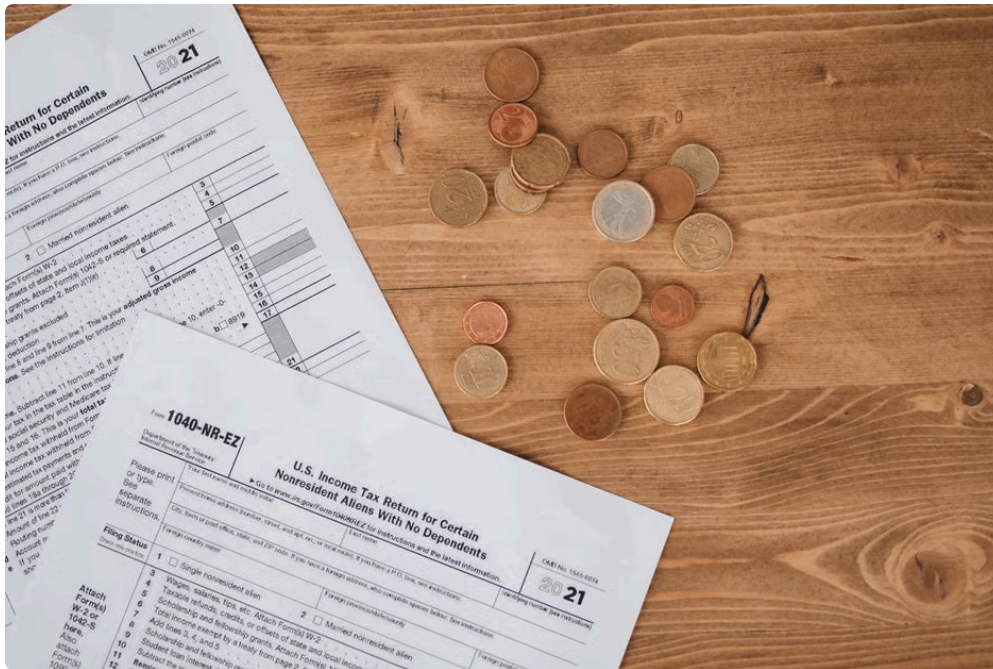


The headline number sounds reassuring: the USDA Economic Research Service estimated that 89 farm estates would owe federal estate tax in 2023. Against an estimated 39,988 farm estates, that is a very small share. For most farm families, federal estate tax is not the first succession problem to solve.

The more useful takeaway is to separate two tax systems that families often lump together. Estate tax may affect only a small number of estates, while income tax can affect heirs who inherit, operate, or sell farm assets. Depreciation, adjusted basis, and the timing of a sale can matter far more to a family's practical outcome than the federal estate-tax forecast.



So before talking strategy, ask the question I ask every farm family: **Who is likely to sell this asset, and when?** The answer helps show whether the bigger concern is estate tax, income tax, business continuity, or a mix of all three.

What the USDA ERS Farm Estate Forecast Says

The USDA ERS farm estate forecast estimated that 39,988 farm estates would be settled in 2023 and that 89 estates would owe federal estate tax. Put simply, the forecast suggests that only a small fraction of farm estates would face that particular federal tax under the assumptions used.

That is meaningful context for families who hear that “farms are getting taxed out of the family.” It does not mean that estate tax is imaginary, or that every farm is safely below the threshold. It means the risk is concentrated: farm size, land values, other assets, debts, ownership structure, and the applicable exemption all affect whether a particular estate may owe tax.

It also matters that this is a model-based estimate, not a count of tax bills issued to exactly 89 named farm families. Estimates depend on definitions and assumptions, including what counts as a farm estate and how asset values and tax rules are applied. Read the USDA Economic Research Service figures as a forecast that helps describe a broad pattern—not as a guarantee about an individual family's tax return.



Forecast figure Practical meaning What it does not tell you 39,988 farm estates in 2023 The estimated number of farm estates in the forecast's scope Whether a particular farm family has a taxable estate 89 estates owe tax A small estimated share faces federal estate tax under the forecast assumptions Whether heirs will owe income tax when assets are sold or depreciated

Estate Tax Is Not the Same as Income Tax

Estate tax is generally calculated on the taxable estate after the applicable deductions and exemptions. Income tax, by contrast, applies to taxable income and certain gains or recapture when a person or business sells or otherwise disposes of property. One can be a serious issue while the other is not.

That distinction gets lost in everyday conversation. "The farm will get taxed" could mean a federal estate-tax bill, income tax on a land sale, ordinary income from depreciation recapture, state inheritance or estate tax, or several of those at once. They are different rules, and they call for different planning.

For most families, the USDA ERS farm estate forecast is a reason to check their exposure—not a reason to assume they need an estate-tax structure. If the estate is well below the relevant federal threshold, the family may get more value from reviewing the farm's income-tax basis, depreciation history, ownership records, and succession plan.

When the estate-tax question still matters

Even if only a small share of farm estates are forecast to owe federal estate tax, some families should take the exposure seriously. A farm can have substantial value tied up in land, buildings, livestock, machinery, and other business assets. Add nonfarm investments, life insurance, or ownership interests, and the total estate may look different from the farm balance sheet alone.

Tax thresholds and rules can change. State-level estate or inheritance taxes may also apply under rules that differ from federal law. Families with valuable property, several owners, or plans to transfer a business across generations should get advice based on current law and their actual asset values. Do not use the national forecast as a substitute for an estate calculation.

Income Tax Can Be the Bigger Succession Threat

Here is the concern that can sneak up on heirs of a “paid-off” farm: the absence of a loan does not mean an asset has no tax history. A tractor may be fully paid for, but its tax basis may have been reduced over years of depreciation. If an heir or the farm business sells it, the sale can produce taxable income even though the equipment was bought long ago and carries no debt.

That is why the depreciation schedule deserves a place at the succession-planning table. A Schedule F can show farm income and expenses, but families should also review the supporting tax records that track the cost, depreciation claimed, and adjusted basis of each asset. Schedule F by itself is not a complete inventory of the tax consequences of selling land, machinery, livestock, or business property.

Depreciation can help reduce taxable income in the years it is claimed. The trade-off is that it usually reduces the asset’s adjusted basis. A lower basis can mean more gain to recognize when the asset is sold. With some property, part or all of that gain may be treated as ordinary income through depreciation recapture, rather than receiving the tax treatment families may expect from a capital gain.

How IRC Section 1245 affects equipment

Farm equipment commonly falls under IRC Section 1245. When qualifying Section 1245 property is sold for more than its adjusted basis, depreciation recapture can cause gain to be taxed as ordinary income, generally up to the amount of depreciation previously allowed or allowable. The details depend on the property, its tax history, and the sale price.

For example, suppose a farm bought a machine for \$100,000 and claimed \$80,000 in depreciation. Its adjusted basis would generally be \$20,000. If the farm later sold it for \$50,000, the \$30,000 gain over adjusted basis may be ordinary income under the Section 1245 recapture rules, subject to the specific facts. The machine being paid off does not erase that potential tax bill.

This is the number that should scare families more than a vague warning about estate [agdaily.com](https://www.agsdaily.com) tax: not because every equipment sale creates a crisis, but because families often do not know the adjusted basis or accumulated depreciation until a sale is already underway. Good records and a planned sale can give a family more options than a rushed transaction.

Inherited Assets and the Sale Decision

Inheritance can affect basis, but the outcome depends on the asset, how it is owned, the transfer method, and the law in effect at the time. Families should not assume that every asset receives the same basis treatment or that inherited property erases every tax issue. In particular, prior depreciation, entity ownership, and the way a business interest transfers can complicate the picture.

Land, machinery, and other assets should be reviewed separately. Land may have a very different basis and sale profile from equipment. Machinery may carry substantial depreciation history. A farm entity may own assets, while the family members own interests in the entity. Those layers matter when someone proposes a transfer, buyout, or sale.

Before choosing a strategy, map likely decisions:

1. **Identify the likely seller.** Will the operating child, the entity, the estate, or several heirs sell the asset?
2. **Estimate the timing.** Is a sale expected soon, after a parent’s death, or only when the next generation retires?
3. **Gather tax records.** Find purchase documents, depreciation schedules, prior returns, and ownership agreements.

4. **Compare tax outcomes.** Ask a qualified tax professional to model the sale, transfer, or continued use under the applicable rules.
5. **Coordinate the people plan.** Make sure the transfer works for both heirs who farm and heirs who do not.

What Farm Families Should Do With the Forecast

Use the USDA ERS farm estate forecast as a prompt to ask better questions, not as a reason to buy a one-size-fits-all plan. A useful review begins with a current balance sheet and a list of who owns each asset. Then add tax basis and depreciation information where available. A family cannot compare options reliably if it knows the machinery's market value but not its adjusted basis.

Next, distinguish the risks. Estimate whether the estate could face federal or state estate or inheritance tax. Separately, identify possible income-tax consequences from sales, transfers, or business changes. Then consider whether the operating farm will have the cash to handle a tax bill without selling a productive asset at the wrong time.

Finally, coordinate the tax and succession conversations. A trust or other legal arrangement may solve a specific ownership or transfer problem, but it does not automatically eliminate income tax, reset every basis, or make depreciation recapture disappear. The right plan depends on who will operate the farm, who will inherit, who may sell, and when those decisions are likely to happen.

Use Reliable Information—and Keep the Records

AGDAILY can help readers follow agriculture news and policy discussions, while the USDA Economic Research Service provides research and data that put farm issues in a broader context. For a quick overview in audio, Instaread's audio player may suit readers who prefer listening to summaries on the go. Use those sources to understand the discussion, then verify any tax decision with a professional who can review the family's records and current law.

Keep copies of tax returns, depreciation schedules, equipment invoices, land purchase records, entity documents, and prior appraisals in a place the next generation can find. A well-organized file may not prevent tax, but it can prevent avoidable confusion and rushed decisions.

The Real Takeaway

The USDA ERS farm estate forecast—39,988 farm estates in 2023, with 89 estates estimated to owe federal estate tax—shows that federal estate tax exposure is rare for most farm estates. That is useful news, but it is not a complete succession plan.

For many families, the larger practical risk is income tax tied to what happens after the transfer: a sale, a change in ownership, or the disposal of depreciated equipment. Depreciation lowers basis, and IRC Section 1245 can make equipment recapture ordinary income. So start with the asset, its tax history, and the likely seller. Ask who is likely to sell it and when. That answer is often more useful than starting with a generic "estate tax" conversation.