

When a farmer dies, heirs may inherit land, machinery, livestock, or an ownership interest in a farm business. The tax basis of some inherited property may be adjusted to its fair market value at the date of death. That adjustment—often called a “step-up in basis”—can reduce taxable gain if an heir later sells the asset.

But the adjustment is not automatic paperwork magic. Years later, an heir may need to prove what the asset was, who owned it, what it was worth, and how its basis changed after inheritance. A good file helps answer those questions before the person who knew the details is gone.

One question comes before any strategy: **Who is likely to sell this asset, and when?** A farm family planning to keep land for decades has different documentation needs from heirs who may sell equipment or a parcel within a year. And while the words “estate tax” can scare farmers for no reason, the numbers that deserve attention are often income tax, depreciation, and the eventual sale price.

Why basis records matter to farm heirs

Basis is generally the tax starting point used to calculate gain or loss when property is sold. For inherited property, the basis is often tied to the property’s fair market value at the decedent’s date of death, subject to exceptions and special rules. The adjustment may be upward or downward, so “step-up” is common shorthand—not a promise that basis always rises.

Estate tax exposure is rare for most farm estates. The federal estate tax exemption is high compared with the value of many estates, though the rules and exemption amounts can change, and some states have their own estate or inheritance taxes. For many farm families, the bigger succession threat is income tax: what happens when heirs sell land, equipment, or other property, or when they receive income connected to the decedent’s farming activity.

Depreciation makes the records especially important. A farmer may have claimed depreciation on equipment for <https://www.agdaily.com/sponsored/farm-succession-taxes-income-tax-not-estate-tax-bigger-threat/> years, lowering its adjusted basis. That can leave a large potential gain on a later sale. For example, depreciated farm equipment may be subject to **IRC Section 1245 depreciation recapture**, which generally treats gain up to prior depreciation as ordinary income. A well-supported inherited basis can change the calculation, but heirs need reliable records of both the inheritance value and what happens after the inheritance.

The core file: date of death valuation records

Start a dedicated file for **date of death valuation records**. Keep the valuation evidence that supports the value assigned to each major asset. The goal is not merely to save a single total from an estate return. Heirs should be able to connect each value to a specific asset and explain how the value was determined.

Keep these valuation documents

- **Appraisals:** Retain signed, dated reports for farmland, buildings, machinery, livestock, and other significant property. Ask the appraiser to identify the property, valuation date, method, assumptions, and comparable sales or other supporting data.
- **Land details:** Save legal descriptions, parcel numbers, acreage, maps, soil or productivity information, easements, leases, and records of improvements. A valuation for one tract should not be confused with a neighboring parcel or a different ownership interest.
- **Equipment schedules:** Keep make, model, serial number, year, condition, and hours or usage information. Include photos and any appraisal, dealer estimate, or comparable sale evidence used to establish value.

- **Livestock and crop records:** Preserve counts, categories, weights or grades where relevant, ownership records, and valuation support. Separate property the decedent owned from property owned by a partnership, corporation, or another person.
- **Estate filings and workpapers:** Keep the federal estate tax return, if one was filed, schedules, appraisals attached to it, and the preparer's supporting workpapers. A return may be useful evidence, but do not assume it documents every asset or resolves every later income-tax question.
- **Alternate valuation records:** If the estate used an alternate valuation date, keep the election and supporting records. That election is subject to specific requirements; do not substitute a later date casually for the date-of-death value.

For publicly traded securities, retain statements or market records showing the valuation date and the number of shares. For closely held business interests, preserve the valuation report and the records showing what ownership interest was valued, including any discounts or restrictions considered.

Build a farm asset inventory—not just a list of land

A useful **farm asset inventory** identifies what the decedent owned, how it was owned, and where the supporting records live. "The north quarter" or "the red tractor" is not precise enough for an heir trying to document basis years later.

Asset category	Records to keep	Why they matter later
Farmland and buildings	Deeds, legal descriptions, parcel maps, title records, appraisals, improvement invoices	Establish ownership, identify the property, and support inherited value and later improvements
Machinery and equipment	Purchase documents, depreciation schedules, serial numbers, condition reports, valuation evidence	Connect prior depreciation and inherited value to the particular machine sold or retained
Livestock and stored crops	Inventory counts, ownership records, sales records, valuation support, production records	Help distinguish inherited property from farm income or property with special tax treatment
Business interests	Partnership or corporate agreements, ownership ledgers, tax returns, valuation reports	Show whether the heir inherited an asset directly or an interest in an entity
Debt and liens	Loan statements, mortgage records, payoff figures, guarantees	Clarify the property's financial context and help reconcile estate and ownership records

Record the owner as well as the asset. Land might be held individually, jointly, in a trust, or by an entity. Machinery could belong to a partnership even if one family member used it. The tax result depends in part on what the decedent owned and what the heir actually received.

Keep the old basis and depreciation history, too

Do not throw away the decedent's depreciation schedules just because the property may receive a new basis at inheritance. Those schedules help identify the asset, establish its prior tax history, and reconcile the estate's records with the heir's records. They also help a tax professional determine whether the property is eligible for a basis adjustment and how future depreciation or a sale should be reported.

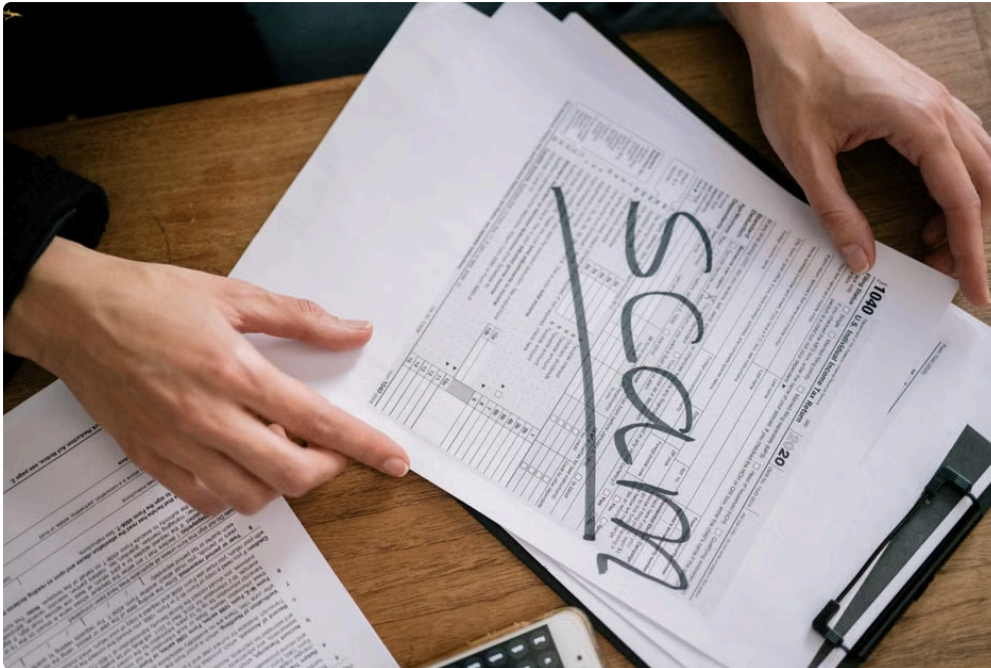
Keep the decedent's federal income tax returns, including **Schedule F**, along with depreciation forms and detailed fixed-asset ledgers. Schedule F can help show the farming activity and point to related records, but it is not a substitute for an asset-by-asset inventory or appraisal. Also retain invoices, purchase contracts, trade-in documents, placed-in-service dates, and records of major repairs or improvements.

For equipment, the key record chain is often: original purchase and cost; depreciation claimed; ownership and use; condition and value at death; value and basis reported by the heir; and any depreciation claimed after inheritance.

If the heir sells the machine, keep the bill of sale, selling costs, date of sale, and proof of payment.

Watch for property that does not follow the simple step-up story

Not every item associated with a farm receives a straightforward adjustment under the general inherited-property rule. Certain income rights and assets treated as income in respect of a decedent may not receive the same basis adjustment. Unharvested crops, grain, livestock, receivables, prepaid items, and interests in farm entities can require careful analysis based on the facts and applicable tax rules.



Entity ownership can add another layer. An heir who inherits stock in a corporation or an interest in a partnership may not automatically receive a basis adjustment in every underlying asset. Partnership outside basis and inside basis, corporate assets, and elections can produce different results. Keep the operating agreement, partnership or shareholder records, tax returns, and any basis schedules—not just the estate inventory.

Property transferred before death may also have different basis consequences from property inherited at death. Trust terms, joint ownership, community property rules, and how title was held can affect the result. Ask a qualified tax professional to review the ownership documents before relying on a presumed step-up.

Document what happens after the inheritance

Heirs should create their own records as soon as they take ownership. Keep a written allocation of inherited basis by asset, the valuation report or other support, and any tax-preparer workpaper explaining the starting basis. Record later capital improvements separately from ordinary repairs. Track post-inheritance depreciation and business use, and keep sale documents if an asset is disposed of.

1. Match each asset in the estate inventory to the heir or entity that received it.
2. Save the valuation and the method used to support the date-of-death value.
3. Record the inherited basis assigned to each asset and the source of that number.
4. Track later improvements, depreciation, business use, gifts, transfers, and sales.
5. Keep digital backups in a location the next generation and tax preparer can access.

Do not rely on a family member's memory or on a note that says "basis stepped up." Store paper originals where appropriate and make searchable digital copies. Give the executor, successor trustee, or farm manager clear instructions about where the files are and who may access them.

Use good sources, but make the records asset-specific

Farm families can use agricultural reporting and education to stay informed, but general articles cannot establish the value of a particular farm asset. AGDAILY may help families follow agricultural news and business issues. The USDA Economic Research Service publishes research on farm finances and agricultural economics that can add useful context. Neither replaces a dated appraisal, ownership record, or tax workpaper for a specific estate.

For families who learn better by listening, an audio player such as the one available through Instaread can make it easier to review general reading during a busy season. Treat that as education, not as documentation or individualized tax advice. A tax professional still needs the actual inventory, valuation support, ownership records, and depreciation history.



A practical handoff for the next generation

Put the records together before a sale is on the table. A tax preparer or succession adviser should be able to trace each major asset from ownership to valuation to inherited basis to later depreciation or sale. That trail is what supports a step-up in basis documentation when questions arise years later.

For most farm families, the priority is not to build an elaborate binder about a tax that may never apply. It is to preserve the records that keep an income-tax surprise from turning a successful succession into an expensive one. Keep the farm asset inventory current, retain date of death valuation records, and never discard depreciation schedules for "paid off" equipment. Paid off describes the loan—not the tax history.