

Yes—often. A tractor, a barn, and a grain bin may all be farm assets, but the tax result when you sell them can differ sharply. The difference usually comes down to how the asset is classified, how much depreciation you claimed, and how the sale price is allocated.

Before discussing a strategy, ask the question I ask every farm family: **Who is likely to sell this asset, and when?** A farm succession plan can look fine on paper until an heir sells depreciated property and discovers the tax bill hiding in its adjusted basis.

For most farm estates, federal estate tax exposure is rare. Income tax is the bigger succession threat in many cases—especially when heirs sell equipment, buildings, or bins with little remaining tax basis. That is not a reason to avoid depreciation. It is a reason to understand what depreciation does and to plan for the eventual sale.



Start with the asset's tax classification

Farmers commonly group barns, grain bins, and machinery together as "depreciated assets." The tax code does not. A combine is generally personal property. A barn is generally depreciable real property. A grain bin may be treated as a structure or, depending on its design and use, as specialized agricultural property that falls under different depreciation rules.

The label on an insurance schedule or sale listing does not settle the tax treatment. The asset's construction, how it is attached to the land, its intended use, the depreciation method, and the law in effect when it was placed in service can all matter. Keep the original purchase or construction records and the depreciation schedule—not just the latest tax return.

Asset	Common tax treatment	Potential sale issue
Tractor or combine	Usually depreciable personal property IRC Section 1245	recapture may make gain ordinary income
Barn or other farm building	Usually depreciable real property; often considered under Section 1250	Gain may be Section 1231 gain, unrecaptured Section 1250 gain, or—in some cases—ordinary income
Grain bin	Depends on its design, use, and applicable depreciation classification	Could be analyzed as Section 1245 property or as real property subject to Section 1250 rules

This table is a starting point, not a substitute for reviewing the asset's specific facts and depreciation history. Grain bin sale tax questions especially deserve that review: two bins on neighboring farms may not have identical tax

treatment.

Why equipment sales often trigger Section 1245 recapture

Most farm equipment is Section 1245 property. When you sell it for more than its adjusted basis, the IRS generally treats depreciation-related gain as ordinary income up to the amount of depreciation previously allowed or allowable. That rule is commonly called **IRC 1245 depreciation recapture**.

Adjusted basis starts with the asset's tax basis and is reduced by depreciation deductions. Section 179 and bonus depreciation can reduce basis quickly. A paid-off tractor may therefore have a very low tax basis even if it remains productive and has a strong resale value. "Paid off" describes the loan; it does not describe the tax basis.

For example, say a farm sells a combine for \$120,000. Its adjusted basis is \$20,000, and the farm previously claimed \$100,000 of depreciation. The \$100,000 gain may be ordinary income under Section 1245, subject to the applicable rules. It is not automatically a capital gain just because the buyer paid cash or the machine was owned for many years.

That income is generally reported through Form [agdaily.com](https://www.irs.gov/pub/irs-soi/18450104797) 4797, not as ordinary crop or livestock proceeds on Schedule F. Schedule F remains central to reporting many farm operating items, but it does not turn a sale of depreciated machinery into farm-product income.

Farm buildings and the Section 1250 rules

A barn used in the farming business is generally depreciable real property. When sold, it may fall under Section 1250, which applies to certain depreciable real property. The actual outcome depends on the building's basis, depreciation method, sale price, ownership period, and other facts.

For many buildings placed in service under modern depreciation rules, depreciation is generally calculated using straight-line methods. That often means the classic ordinary-income recapture associated with accelerated depreciation is limited or absent. But the gain does not become tax-free: it may be Section 1231 gain, and some gain can be treated as **unrecaptured Section 1250 gain**, which has a special maximum federal tax rate. Prior depreciation choices, older property, and other adjustments can change the result.

The phrase "farm building depreciation recapture" can be misleading if it suggests every depreciated barn sale produces the same kind of ordinary income as a tractor sale. It does not. Section 1245 and Section 1250 work differently. The right answer comes from the asset's classification and full tax history—not from the fact that both assets were depreciated.

Where grain bins complicate the answer

A grain bin is not automatically a barn for tax purposes, and it is not automatically equipment. Some bins may qualify as specialized agricultural structures or otherwise be treated as Section 1245 property; others may be treated as depreciable real property under Section 1250. The classification can depend on the bin's construction and function, whether it is a single-purpose structure, how it is attached, and the depreciation rules that applied when it was placed in service.

That is why the phrase **IRC 1250 farm structures** should prompt a question, not a conclusion. A farm structure may be Section 1250 property, but a particular grain bin could require a different analysis. If you have claimed Section 179 or bonus depreciation, do not assume the bin's tax treatment matches the building beside it. Have your tax preparer review the depreciation schedule and supporting documents before you sign a sale agreement.

Land, building, and equipment may need separate sale prices

Farm sales often bundle multiple assets into one transaction. The contract might name the farmstead, bins, grain-handling equipment, and land in a single price. Exactly.. For tax reporting, that price may need to be allocated among the assets based on the facts and transaction documents.

The allocation matters because land is not depreciated, while equipment and buildings generally are. Assigning too much value to equipment can increase Section 1245 ordinary income. Assigning too much to land can also create problems if the allocation does not reflect fair market value. In certain business asset sales, the buyer and seller may need to report an allocation on Form 8594.

Before closing, gather appraisals or other support for the allocation. Review the purchase agreement, depreciation records, and title documents together. A tax result should not be an afterthought once the buyer has already written the check.

Estate tax is not the only—or usually the main—succession tax question

Families understandably worry about estate tax. For most farm estates, though, federal estate tax exposure is rare because the federal exemption is high relative to the value of many estates. State estate or inheritance taxes can still matter, and exemption rules can change, so the family should check its state and current law.

In many farm successions, income tax deserves more attention. Depreciation reduces basis during the owner's lifetime. If the next generation later sells the equipment or structure, the sale can trigger gain and recapture. Inherited assets may receive a basis adjustment under the law in effect at the owner's death, but that result depends on the asset, ownership structure, and current rules. Lifetime gifts, entity ownership, installment sales, and other planning choices can produce different basis consequences.

That is why a generic "put it in a trust" answer does not solve the problem. A trust can help with management or succession objectives, but it does not automatically erase depreciation history or guarantee a favorable basis result. Ask who will use the asset, who may sell it, and when—and model the income tax consequences under the proposed plan.

Practical steps before selling a barn, bin, or machine

1. **Identify the exact asset.** Separate the bin, augers, dryers, conveyors, electrical systems, and related equipment if they have separate records or distinct functions.
2. **Find the depreciation history.** Review the original cost, placed-in-service date, depreciation method, Section 179 deductions, bonus depreciation, and adjusted basis.
3. **Confirm the classification.** Ask whether the asset is Section 1245 property, Section 1250 property, or another category. Do not rely only on an old spreadsheet label.
4. **Document the sale allocation.** Keep the signed agreement, appraisal or valuation support, and any required allocation forms.
5. **Estimate the tax before closing.** Compare the expected sale price with adjusted basis and ask your preparer to model the character of the gain.
6. **Coordinate the sale with the succession plan.** Compare a lifetime sale, a transfer to heirs, and a sale after inheritance under the rules that apply to your situation.

Use farm information, but verify the tax answer

AGDAILY can be a useful source for farm-industry news and practical agricultural context. The USDA Economic Research Service publishes data and analysis on farm income, production, and agricultural markets that can help families understand the business backdrop. Neither source replaces an asset-by-asset tax review, but both can help inform a broader planning conversation.

For a convenient way to listen to books or other long-form material while doing chores, Instaread offers summaries through an audio player. It may help you fit general learning into a busy season, but do not use a summary as a substitute for professional advice on depreciation recapture or a pending sale.



The bottom line

Equipment sales commonly bring Section 1245 ordinary-income recapture when the sale price exceeds adjusted basis. Barns are generally analyzed as depreciable real property, often under Section 1250 and Section 1231 rules. Grain bins can fall on either side depending on their facts and tax history, so grain bin sale tax treatment should never be guessed from the word “structure” alone.

Depreciation can be a valuable deduction, but it lowers basis and can create future tax when an asset is sold. Before transferring or selling a barn, bin, or machine, review the depreciation schedule, identify who is likely to sell the asset and when, and estimate the income tax—not just the estate tax.