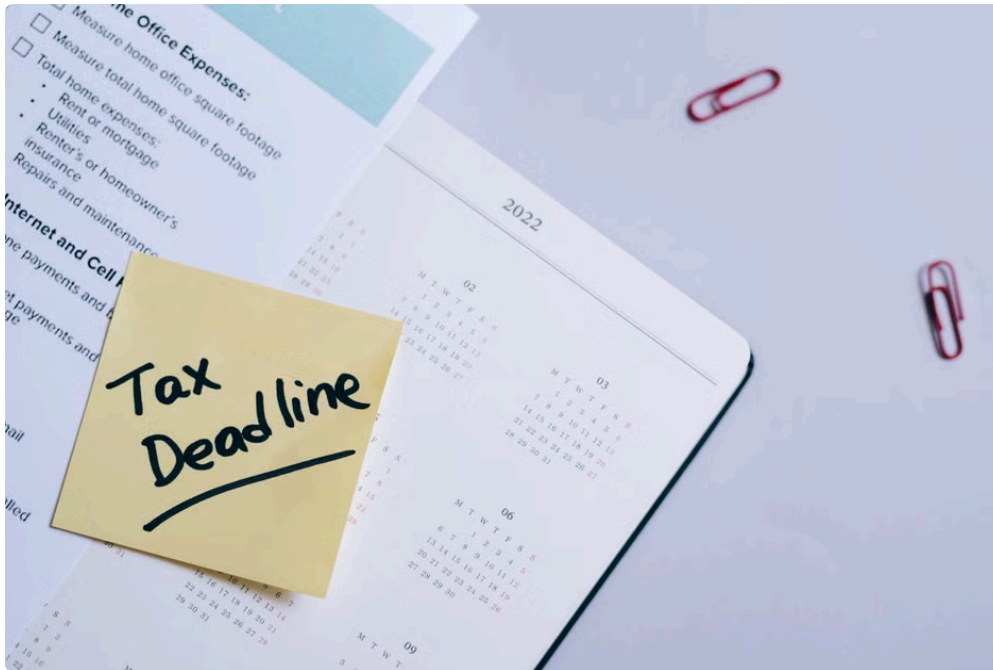


A paid-off combine can still carry a painful tax bill. "Paid off" describes the loan. "Zero basis" describes the tax ledger—and that number can matter a lot more when you sell.

Before choosing a sale date, trade-in, or transfer to a family member, ask the question I ask every farm family: **Who is likely to sell this asset, and when?** The answer can shape the income tax result, especially when years of depreciation have reduced the combine's adjusted basis to zero.



For many farm families, income tax—not federal estate tax—is the bigger succession threat. Estate tax exposure is rare for most farm estates, while a machinery sale can produce taxable income during an ordinary year. This article explains the basic rules, what to check on your **basis schedule for farm machinery**, and why **combine sale depreciation recapture** can turn sale proceeds into **farm equipment ordinary income**.

First, What Does “Zero Basis” Mean?

Tax basis generally starts with what you paid for equipment, plus certain capitalized costs. Depreciation deductions reduce that basis over time. If the combine's original tax basis was \$500,000 and the farm claimed \$500,000 of depreciation, its adjusted basis may now be zero.

That does not mean the combine has no market value. It means the farm has already deducted its tax cost, subject to the details of the depreciation history. If the farm sells the machine for \$160,000, the sale may produce up to \$160,000 of taxable gain. The exact result depends on the asset's records, prior depreciation, sale costs, and any other relevant facts.

Depreciation Is a Timing Benefit, Not a Disappearing Tax Issue

Depreciation can reduce taxable income in the years a farm owns equipment. Accelerated depreciation and Section 179 expensing may allow a large deduction early, depending on the year and the farm's circumstances. But a large deduction today can leave little or no basis later. When the farm sells the equipment, tax law may bring some of that prior deduction back into income through depreciation recapture.

That is why the **basis schedule for farm machinery** deserves attention before a sale—not after the buyer’s check clears. The schedule should track each asset’s original cost, depreciation method, depreciation claimed or

allowable, business-use percentage, and adjusted basis.

How Section 1245 Recapture Works on a Combine

A combine generally falls under Section 1245 because it is depreciable personal property used in a business. When the farm sells it for more than its adjusted basis, Section 1245 can treat some or all of the gain as ordinary income. Ordinary income is generally taxed at ordinary income tax rates, rather than receiving the more favorable capital-gain treatment people sometimes expect.

Section 1245 recapture is generally limited to the gain on the sale or the depreciation deductions previously taken (or that were allowable), whichever is less. In plain language: the tax law can reclassify gain as ordinary income to the extent prior depreciation reduced the asset's basis. If the combine has zero adjusted basis and the sale price is below its original cost, the gain will often be ordinary income under Section 1245, subject to the asset's specific depreciation history.

If the sale price exceeds the asset's original cost, the amount above the depreciation-related recapture limit may receive different treatment, potentially as Section 1231 gain. Do not assume that every dollar from a combine sale has the same tax character. Your tax preparer should calculate the result using the actual records and current rules.

Example item Amount What it means Original tax basis \$500,000 Starting basis, subject to the asset's records and adjustments Depreciation claimed or allowable \$500,000 May reduce adjusted basis to zero Adjusted basis before sale \$0 The combine is "zero basis" for this simplified example Sale proceeds \$160,000 Could produce \$160,000 of gain, often ordinary income under Section 1245

This is an illustration, not a tax calculation. A trade allowance, selling costs, partial business use, prior exchanges, casualty history, or incorrect depreciation records can change the numbers. "Zero basis" should be verified, not guessed.

How Bad Can the Tax Hit Be?

The tax bill depends on more than the sale price. Ordinary income from recapture can affect the farm's federal income tax, state income tax, and possibly other tax calculations. The sale may also land in a year when the farm has strong crop income or other equipment sales. A \$160,000 taxable gain does not mean a \$160,000 tax bill, but it can push the total tax liability up substantially.

There is no universal percentage to apply. A preparer needs the seller's filing status, other income, deductions, agdaily.com state, depreciation history, and the sale's character. The farm should also consider whether the gain could affect estimated tax payments or other income-based thresholds. Ask for a projection before signing the sale paperwork, particularly if multiple assets may be sold in the same tax year.

Schedule F Is Part of the Picture, but Usually Not the Whole Story

Farmers often start with Schedule F because that is where they report many farming income and expense items. But the gain from selling depreciable business equipment is generally reported through Form 4797, rather than simply being entered as ordinary farm receipts on Schedule F. The sale still belongs in the farm's overall tax planning and return preparation, so make sure the preparer gets the bill of sale and full depreciation records.



Farmers comparing equipment values and market conditions may read reporting from AGDAILY or data and analysis from the USDA Economic Research Service. Those sources can help with industry context, but they cannot establish the tax basis of your particular combine. Your depreciation ledger and tax returns do that work.

Succession Planning: Who Sells, and When?

A combine sale during the owner's lifetime can produce a different tax outcome from an inheritance followed by a sale. In many cases, inherited property receives a basis adjustment under federal tax rules, often tied to fair market value at the date of death. That adjustment may reduce built-in gain that would otherwise have been recognized on a later sale.

But do not treat that as a universal "wait until inheritance" strategy. Estate tax exposure is rare for most farm estates, but income tax still matters. The basis result depends on how the asset is owned and transferred, the facts surrounding the transfer, and the rules in effect. An heir who continues using the combine may claim depreciation after inheritance; a later sale may then raise recapture questions tied to the heir's depreciation and basis. Get advice before transferring machinery, gifting it, or changing the ownership structure.

Also consider the operational side. A family may need to sell the combine to fund a replacement, pay debt, or settle an ownership transition. Tax planning should support the farm's actual needs, not force the family to keep equipment it should sell. A well-timed sale may still be the right decision after the tax cost is understood.

What to Gather Before Listing or Trading the Combine

Collect these records before you ask for a tax estimate:

- The original purchase invoice and date placed in service.
- The complete depreciation schedule, including Section 179 and bonus depreciation details.
- Prior tax returns showing depreciation claimed or allowable.
- Records of business-use percentage and any personal use.
- Any trade-in documents, sale offers, auction statements, or broker agreements.
- Loan payoff information, kept separate from tax basis.

- Records of improvements, prior casualty events, or ownership changes.

Do not subtract the loan payoff from the sale price to estimate taxable gain. Debt affects the cash left after closing; it does not automatically reduce the amount realized for tax purposes. A combine can be fully paid off and still have a significant taxable gain, or it can have a loan balance larger than its tax basis. Those are separate calculations.

Practical Steps to Manage the Tax Surprise

1. **Confirm the basis.** Have your preparer reconcile the machinery schedule to prior returns and purchase records.
2. **Model the transaction before it happens.** Compare a cash sale, auction, and trade-in using realistic proceeds and the likely tax character.
3. **Project the full tax year.** Add the gain to crop income, livestock sales, other machinery dispositions, and expected deductions.
4. **Review timing carefully.** Moving a sale across tax years may help in some cases, but the sale date and payment terms need to be real and properly documented.
5. **Coordinate with the succession plan.** Identify who owns the combine now, who may inherit it, and who is likely to sell it.

Bottom Line

A zero-basis combine can generate a large taxable gain because depreciation lowered its basis while the machine retained market value. For equipment covered by Section 1245, gain up to the applicable depreciation recapture limit is generally ordinary income. That is the core **combine sale depreciation recapture** issue—and the reason “paid off” is not a tax answer.

Keep a current **basis schedule for farm machinery**, verify the depreciation history, and project the sale before committing. If you prefer to listen while you work, Instaread offers an audio player; use the **audio player (Instaread)** for compatible reading material, then take your own records to a farm tax professional. The goal is not to avoid every tax. It is to know the number before you sell—and to make the sale fit the farm’s succession plan.