



# CARDINAL ADVISORS

## Step Up In Basis-Estate Planning-Income Tax

In the video entitled "Step Up In Basis-Estate Planning-Income Tax" Hans and Tom use the following handout to discuss estate planning.

STEP UP IN BASIS-ESTATE PLANNING-INCOME TAX																					
S.S.	<ul style="list-style-type: none"><li>COST BASIS = \$8 PAID FOR A CAPITAL ASSET</li><li>FAIR MARKET VALUE (FMV) = VALUE ON DATE OF DEATH</li><li>REDUCE OR ELIMINATE CAPITAL GAINS ON INHERITED ASSETS</li><li>NO STEP UP IN BASIS FOR IRA'S</li><li>ONE YEAR LOOK BACK ON REVERSE GIFTS</li></ul>		INCOME																		
<input type="checkbox"/>			<input type="checkbox"/>																		
MED.	<div>1000 SHARES @ \$10 / SHARE = \$10,000 COST</div> <div>1000 SHARES @ \$100 / SHARE = \$100,000 FMV</div> <div>SOLD BEFORE DEATH \$100,000 - \$10,000 = \$90,000 TAXABLE</div> <div>SOLD AFTER INHERITANCE \$100,000 - \$100,000 = \$0 TAXABLE</div>		ESTATE																		
<input type="checkbox"/>			<input type="checkbox"/>																		
LTC	<div><u>SOUTH CAROLINA CONDO</u> - COST BASIS \$110,000</div> <div>- HUSBAND DIED 2022, FMV = \$500,000</div> <div>- HUSBAND HALF - \$55,000 SU = \$250,000, WIFE HALF \$55,000</div> <div>- NEW COST BASIS \$305,000 / SOLD 2024 \$550,000 - \$305,000 = \$245,000 TAXABLE</div>		TAXES																		
<input type="checkbox"/>			<input type="checkbox"/>																		
401K / IRA	<div><u>2025 CAPITAL GAINS TAX</u></div> <table border="1"><thead><tr><th>MARRIED / JOINT</th><th>SINGLE</th></tr></thead><tbody><tr><td>0% 0 - 96,700</td><td>0 - 48,350</td></tr><tr><td>15% 96,701 - 600,050</td><td>48,351 - 533,400</td></tr><tr><td>20% OVER \$600,050</td><td>OVER 533,400</td></tr></tbody></table>		MARRIED / JOINT	SINGLE	0% 0 - 96,700	0 - 48,350	15% 96,701 - 600,050	48,351 - 533,400	20% OVER \$600,050	OVER 533,400	<div><u>COMMUNITY PROPERTY STATES</u></div> <table border="1"><tbody><tr><td>ARIZONA</td><td>NEW MEXICO</td></tr><tr><td>CALIFORNIA</td><td>TEXAS</td></tr><tr><td>IDAHO</td><td>WASHINGTON</td></tr><tr><td>LOUISIANA</td><td>WISCONSIN</td></tr><tr><td>NEVADA</td><td>ALASKA</td></tr></tbody></table>	ARIZONA	NEW MEXICO	CALIFORNIA	TEXAS	IDAHO	WASHINGTON	LOUISIANA	WISCONSIN	NEVADA	ALASKA
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## Understanding Step-Up in Basis in Estate Planning

### I. Introduction

Estate planning isn't just about who inherits your assets—it's also about minimizing taxes. One powerful tool is the 'step-up in basis,' which adjusts the cost basis of an asset to its fair market value (FMV) at the time of the owner's death. This can dramatically reduce capital gains taxes for heirs.

### II. The Basics of Step-Up in Basis

- Applies when an asset owner dies
- Adjusts cost basis to FMV at the date of death
- Reduces or eliminates capital gains tax when inherited assets are sold
- Applies to capital assets: real estate, stocks, business interests, etc.

### III. Stock Example: Selling Before vs. After Death

Scenario: 1,000 shares of stock bought for \$10,000; FMV at date of death is \$100,000

- A. Sold Before Death:
  - - Sale Price: \$100,000
  - - Original Basis: \$10,000
  - - Capital Gain: \$90,000 (Taxable)
- B. Sold After Death (by Heir):
  - - Inherited Basis: \$100,000
  - - Sale Price: \$100,000
  - - Capital Gain: \$0 (No Tax)

### IV. Step-Up in Basis and Married Couples

- Common Law States: Only deceased spouse's half gets stepped up
- Community Property States: Entire property may receive full step-up
- Titling matters (e.g., joint tenancy vs. tenants in common)

### V. Home Sale Example After First Spouse's Death

Couple buys home for \$200,000; FMV at first spouse's death is \$600,000; Titled jointly in a common law state.

- - Half of home steps up from \$100,000 to \$300,000
- - New basis = \$300,000 (stepped-up half) + \$100,000 (unchanged half) = \$400,000
- - Sold for \$650,000; Gain = \$250,000
- - Surviving spouse qualifies for \$250,000 home sale exclusion
- - Capital Gains Tax Owed = \$0

## **VI. Final Step-Up at Second Death**

- Assets receive a new step-up at second spouse's death
- Heirs inherit at FMV
- If sold quickly, little or no capital gains tax is owed

## **VII. Planning Tips**

- Understand state-specific laws
- Maintain records of original basis and capital improvements
- Work with a qualified estate planning attorney or tax advisor

## **VIII. Conclusion**

The step-up in basis is a vital strategy in estate planning. It can reduce or eliminate taxes on appreciated assets like homes and stocks. Proper planning ensures your heirs retain more of your legacy.