
STEPPED UP BASIS

Issue:

Eliminating the stepped up basis, whether by tax at death or carryover of basis, will have negative impacts on family-owned businesses, US gross domestic product (GDP), and job creation both in the immediate and long term. Repeal of step-up of basis would impose a tax burden on top of the existing estate tax regime, further compounding these negative impacts.

Background:

Stepped up basis is a longstanding tax provision that says that capital gains taxes are not imposed when assets are transferred at death to an heir. Furthermore, tax law allows the heir to increase their basis in the assets to fair market value without paying capital gains tax. Step-up in basis provides that heirs only owe capital gains taxes on the amount the asset appreciates while they owed the asset and only if the asset is sold. If the asset is never sold, no capital gains taxes are collected.

Stepping up basis when an individual who is a member of a family-owned farm or ranch dies is critical to that business surviving the loss of a loved one and a business partner. Repealing stepped-up basis by imposing capital gains taxes when assets transfer ownership at death would force many family-owned farms and ranches to liquidate assets to cover the tax burden. This new tax would be imposed on top of any existing estate tax liability, further compounding the negative impacts and creating a second tax at death. The magnitude of the burden depends on the change in the asset value, but Farm Bureau analysis shows the tax would likely significantly exceed the annual income generated by the assets. In fact, it could take years of returns to equal the amount of the tax.

By raising the tax burden on investment, the repeal of stepped-up basis via tax at death increases the cost of capital, which discourages investment and results in less capital formation. With less capital available per worker, labor productivity falls and with it the wages of workers and, ultimately, GDP and Americans' standard of living. A recent EY report forecasts that 80,000 jobs would be lost in each of the first 10 years and GDP would decrease by \$100 billion over 10 years if stepped-up basis were repealed. Additionally, for every \$100 of revenue raised by repeal via taxing capital gains at death, \$32 would come out of the paychecks of workers.

Use this link to read the recently released EY report entitled [*Repealing step-up of basis on inherited assets: Macroeconomic impacts and the effects on illustrative family businesses*](#) prepared for the Family Business Estate Tax Coalition, April 2021.

AFBF Policy:

Farm Bureau supports the continuation of stepped up basis.

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