



## Stepped up basis

A basic primer of a “stepped up basis” - We are not tax advisors, always check with your tax advisor and tax attorney for changes in the tax laws and how such laws may affect your personal tax situation.

We often are asked about:

If my spouse has died, can I use a “stepped up basis” to reduce my or my children’s tax burden?

How soon after my spouse's (Benefactor) death should I determine the stepped up basis?

How do I determine the “stepped up basis”?

If I use a stepped up basis do I still qualify for the IRS rule regarding paying no taxes on my primary home’s gain of \$500,000 (married couple) \$250,000 (single person.)

Purpose of “stepped up” basis:

The “stepped up” basis is designed to reduce the capital gains tax for heirs on inherited assets. Under IRC § 1014(a), the “stepped up basis” applies to an “asset” (such as a home) a person (the beneficiary) receives from a giver (the benefactor) after the benefactor dies. Section 1014 will generally give a surviving joint tenant a step up in basis as to the portion of the jointly held property that was included in the decedent's estate.

Q1) If my spouse has died, can the IRS “stepped up basis” reduce my or my children’s tax burden?

It can: If your spouse has died and you don’t step up your basis, when you pass away your children will inherit at the original basis possibly increasing their tax burden. Regardless as to whether you are going to sell or keep your home until your children inherit it's probably worth talking to a tax professional or tax attorney about stepping up your basis.

Q2) How soon after my spouse's (Benefactor) death should I determine the stepped up basis?

We believe as soon as possible: Retroactively determining a past fair market value is difficult and lacks accuracy.

Q3) How do I determine the “stepped up basis”?



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To qualify for the stepped up IRS basis you will need a current valuation of your property. Generally, the IRS does not question or require any certain documentation in the determination of your “stepped up basis” valuation. However, for yours and you tax professional’s “peace of mind” we recommend to get the best valuation you can use any of three sources of value:

Broker opinion of Value (BOV). Some brokerages will supply this for a charge, However, if you have just suffered a spouse's death, Atomic Realty will supply one free of charge. In New Mexico, we suggest only accepting a BOV from a “Qualifying Broker” rather than a mere Associate Broker. A Qualifying Broker will have greater experience and credibility if audited by the IRS than an Associate Broker.

Tax assessor valuation: depending on the municipality the assessor may value a property greater than its actual worth thus giving you a greater stepped up basis, which is often what you want.

Appraisal: This will be an additional cost, but it is also a valid method of determining value and just as Qualifying Brokers are experienced licensed professionals, these too are licensed professionals. The downside of an appraisal is they only use PAST sales to determine and estimate value. In a rapidly rising market appraised value usually lags behind reality, and often does not reflect current conditions.

Q4) If I use a stepped up basis do I still qualify for the IRS rule regarding paying no taxes on my primary home’s gain of \$500,000 (married couple) \$250,000 (single person.

The rule on this has been for UP TO A YEAR after your spouse's death you are exempt for up to the married couple \$500,000 exemption on capital gains, on your primary residence, but if you keep the home longer than this you are you are only exempt for the single person’s \$250,000

#### Example

In a home whose title is held as joint tenants with a right to survivorship, the surviving spouse inherits ½ the “stepped up” value of the house. The general rule is that the beneficiary's (receiver) basis equals the fair market value of the asset at the time the benefactor dies. This can result in a stepped-up basis.