

Inheriting?

Inherited Property & Taxes: How a Stepped-Up Basis Can Help Minimize Your Tax Burden.

Disclaimer: We are not tax advisors. Always consult with a qualified tax professional or tax attorney, as tax laws change frequently and may impact your specific situation.

What Is a “Stepped-Up Basis”?

A stepped-up basis is a provision in the tax code that can significantly reduce the capital gains tax on inherited assets. When a person inherits an asset—like a home—its cost basis is "stepped up" to its fair market value (FMV) as of the date of the original owner's death.

This means that any appreciation in value that occurred during the original owner's lifetime is not subject to capital gains tax when the asset is sold. This can substantially reduce the tax burden for heirs.

Legal Basis: Under IRC § 1014(a), a stepped-up basis generally applies to property passed on through inheritance. In the case of jointly held property, a surviving spouse usually receives a step-up in basis for the portion included in the deceased spouse's estate.

Key Questions & Answers

Q1: If my spouse has died, can a stepped-up basis reduce my or my children's taxes?

Yes. If your spouse has passed and you don't update your basis, your children may inherit the original (lower) basis, possibly increasing their future tax burden. Whether you're planning to sell now or hold the property until it's passed on, it's smart to speak with a tax professional about adjusting the basis now.

Q2: When should I determine the stepped-up basis?

As soon as possible. It's much easier to determine the fair market value (FMV) at the time of death than it is to retroactively calculate it later. Accurate records now can prevent complications or disputes down the line.

Q3: How is the stepped-up basis determined?

The IRS does not mandate specific documentation, but credible valuation is crucial for your protection and peace of mind. You can establish FMV using any of the following:

Broker Opinion of Value (BOV):

Many brokerages charge for this, but Atomic Realty provides one free of charge. In New Mexico, ensure the BOV comes from a Qualifying Broker, not just an Associate Broker, to strengthen credibility in case of an audit.

County Tax Assessor Valuation:

While assessors may overvalue properties, this can benefit you by increasing your stepped-up basis (and thus reducing future capital gains).

Professional Appraisal:

Though there's a cost, this is a valid and accepted method. However, be aware that appraisals use historical sales data, which may undervalue the property in a rising market.

Special Capital Gains Rule for Surviving Spouses

If the property was your primary residence, the IRS allows for up to \$500,000 in capital gains exemption for married couples. After your spouse's death, you have one year to still qualify for the full \$500,000 exemption. After that year, the exemption drops to \$250,000 for a single filer.

Los Alamos Market Snapshot (as of July 9, 2024)

While this is general county-wide data and may not reflect your home's specific situation, here's a quick look at the current market:

Homes on the Market: 65 (a high number—lots of competition)

Median List Price: \$318 per sq ft

Median Sold Price (past 180 days): \$311 per sq ft

Average Days on Market: 68 (compared to just 7 days two years ago)

Want a Personalized Valuation? For a more accurate analysis of your property's value, feel free to reach out or visit AtomicRealty.net.

David Houck is the Qualifying Broker of Atomic Realty. With over 40 years in real estate, a background in math, physics, and law, David brings deep expertise and integrity to the table. He also serves on the New Mexico Association of Realtors Forms Committee, helping shape clear, consumer-friendly real estate contracts.