



## **Sensible Taxation and Equity Promotion (STEP) Act**

Senators Chris Van Hollen, Cory Booker, Bernie Sanders, Sheldon Whitehouse, and Elizabeth Warren

### **Problem: Tax-free stepped-up basis**

Working Americans pay taxes every year on their income. But the income tax is more optional for the wealthiest families, whose income often comes from their wealth rather than their work. Income from wealth accumulation is supposed to be taxed as capital gains when someone sells an asset for more than what they paid for it. However, when someone dies with assets that increased in value during their lifetime, income taxes are never collected on these capital gains – even if their heirs sell the asset the next day.

This is called the “stepped-up basis” loophole, because it allows heirs to step up their cost basis in inherited property to match the value on the date of the previous owner’s death, meaning that only capital gains above that point could ever be subject to income taxes. This is one of the largest tax breaks in the entire federal tax code, with the Joint Committee on Taxation estimating that it is worth [\\$41.9 billion](#) in 2021 alone.

Every dollar of the tax break from tax-free stepped-up basis is a government subsidy for inherited wealth, and the bulk of that subsidy goes to the wealthiest family dynasties. Thanks to stepped-up basis, [55% of the wealth](#) in estates worth more than \$100 million has never been, and will never be, subject to any income taxes.

### **Solution: The STEP Act**

This legislation would close the stepped-up basis loophole by taxing unrealized capital gains when heirs inherit huge fortunes on which the original owner never paid income taxes. The tiny share of estates that owe the estate tax will not be subject to double taxation, because the income taxes paid under this bill will be deductible for estate tax purposes. And the bill includes special rules to ensure that wealthy families are not able to avoid the tax by abusing trusts.

To ensure this change applies only to wealthy families, and to protect small family farms and businesses, the bill would allow all individuals to exclude up to \$1 million in unrealized capital gains from this tax. For example, if someone dies holding \$6 million in property for which they paid \$4 million, they would only pay taxes on \$1 million of that \$2 million gain. If someone dies holding \$3 million in property for which they paid \$2 million, none of that \$1 million gain would be taxable. On top of that, existing tax laws would provide an additional exclusion of up to \$500,000 for personal residences, and assets held in retirement accounts would continue to not be subject to capital gains taxes. Gifts and bequests to charity would be exempt from the tax.

In addition to excluding up to \$1 million in gains, the legislation allows taxpayers to pay the tax in installments over a 15 year period for capital gains that apply to any illiquid asset like a farm or business.

**The STEP Act is supported by: AFL-CIO, American Federation of Teachers, Americans for Tax Fairness, Coalition on Human Needs, Institute on Taxation and Economic Policy, American Federation of State, County and Municipal Employees (AFSCME), Patriotic Millionaires, and NETWORK Lobby for Catholic Social Justice.**