

Step-Up in Basis

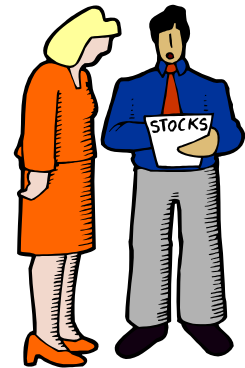
At death, the income tax basis of appreciated property in an estate is increased, or “stepped-up”, to its fair market value as of the date of death. Also, property that has decreased in value is “stepped-down”.

The step up in basis only applies to property that is included in the decedent’s estate. An alternative valuation can be applied for only if it results in a reduction in the value of the gross estate and a reduction in any estate taxes payable.

To prevent the gifting of highly appreciated assets in anticipation of the donee’s death, where the assets would be adjusted to the fair value as of the date of death, no transfers are permitted within one year of the donee’s death where the property would be passed back to the original donor.

Example: The decedent has, for 10 years held 1,000 shares of XYZ stock with an original cost of \$10 per share, or \$10,000 in total. The price of XYZ stock was \$100 per share when the decedent dies.

If the stock was sold before the decedent’s death, the decedent would have a capital gain. Assuming taxes are 15% Capital Gain and 5 % New Jersey:



	Stock	Cost	Market Value	Gain on Sale of Stock	After Taxes
Lifetime	XYZ	\$10,000	\$100,000	\$90,000	\$72,000
Date of Death Valuation	XYZ	\$100,000	\$100,000	\$0	\$100,000