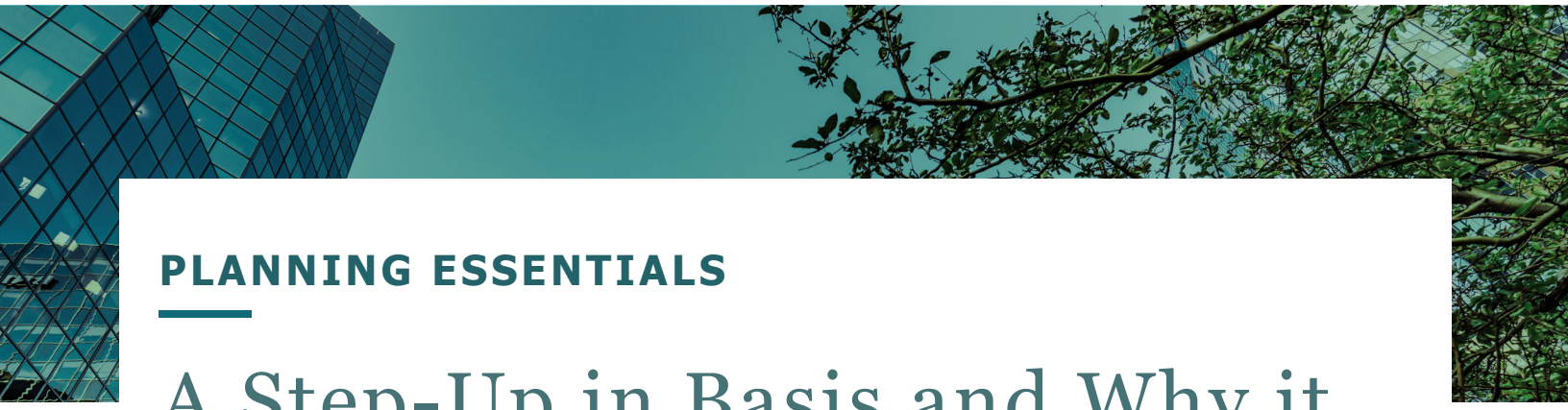
Eagle Strategies LLC

Estate



PLANNING ESSENTIALS

A Step-Up in Basis and Why it Matters in Estate Planning

KEY TAKEAWAYS:

- **Because inherited after-tax assets receive a step-up in basis, it is a more tax-efficient way to pass on highly appreciated assets at death to beneficiaries rather than gifting it to them while living**
- **A step-up in basis can also be applied to assets you transfer through a revocable trust.**

The cost basis of any inherited after-tax investment refers to how much the original owner paid for that asset. A "stepped-up" cost basis is simply the original cost basis adjusted to the asset's fair market value at the time it is inherited.



Why is a step-up in basis important?

A step-up in basis is important because if a beneficiary eventually decides to sell an inherited investment, capital gains taxes are not owed on the ***total*** appreciation of the asset since it was purchased—only on any appreciation that occurred beyond the value of the asset at the time it was inherited.

Here's a simple example:

Jim purchases
1,000 shares of XYZ corp at
$10/share

Many years later,
his daughter inherits the stock
which had increased in price
$100/share

Two years later, she sells
the stock at a price of
$115/share



If there were **no step-up in basis,** she'd be required to ***pay*** capital gains tax on the
$105,000 value.

Because of the **step-up in basis,** however, she will *only* be obligated to pay capital gains on the excess value gained
($15,000) since she inherited the stock.

For individuals and families focused on the tax-efficient transfer of wealth, the rules relating to a step-up in basis, essentially makes all the gains incurred for highly appreciated assets tax-free for your heirs during your lifetime.

Gift or inherit—Why step-up matters

When you gift assets during your lifetime, the recipient steps into your shoes and takes over the asset at its original cost basis. This means they will be responsible for taxes on all of the accumulated capital gains when the investment is ultimately sold. So, the step-up in basis of inherited assets can be an extremely powerful tool. However, deciding which after-tax assets to gift and which to hold onto requires careful consideration of many factors such as:

- The appreciation of each asset since you purchased it;
- Your current financial circumstances and the size of your estate;
- The income tax bracket of the potential gift recipient;
- Your remaining lifetime estate and gift tax exemption; and
- The overall structure of your estate plan.

In general, you'll typically want to consider gifting lower appreciated assets to beneficiairies during your lifetime; while waiting to transfer more highly appreciated assets upon your death so that beneficiaries can take advantage of the step-up in basis. Some individuals will also choose to donate highly appreciated assets to charity through a variety of mechanisms.

Do trust assets benefit from step-up rules?

Typically, assets you place in trust for your beneficiaries are eligible for a step-up in basis if the trust is revocable, and therefore considered part of your taxable estate. But with an irrevocable trust (which exists outside of your estate), trust assets do not receive a step-up in tax basis.

Trusts (even irrevocable trusts) can still be effective vehicles for taking advantage of step-up rules. For example, did you know that *Marital Trusts* provide an opportunity for a double step-up in basis—once upon the death of the first spouse, and then again upon the death of the surviving spouse? Additionally, beneficiaries who receive assets through an irrevocable *Grantor Trust* can take advantage of "swap powers" to swap out highly appreciated assets with cash or high-basis assets of equivalent value. In effect, this allows them to move highly appreciated assets from the trust to their estate where those assets will receive a step-up in basis.

Plan ahead

Basis considerations can have a profound impact on a wide range of estate planning decisions. Given the uncertain future of estate tax exemptions and rates, now is an opportune time to sit down with your advisor and attorney to review and potentially revise your estate plan—it's a chance to take advantage of opportunities that may soon disappear, and better prepare for the road ahead.

Eagle Strategies LLC (Eagle) is an SEC-registered investment adviser. Registration with the SEC does not imply a certain level of skill or training. Eagle investment adviser representatives (IARs) act solely in their capacity as insurance agents of New York Life, its affiliates, or other unaffiliated insurance carriers when recommending insurance products and as registered representatives when recommending securities through NYLIFE Securities LLC (member FINRA/SIPC), an affiliated registered broker-dealer and licensed insurance agency. Eagle Strategies LLC and NYLIFE Securities LLC are New York Life Companies. Investment products are not guaranteed and may lose value. No tax or legal advice is provided by Eagle, its IARs or its affiliates.

ES.PE.WhyItMatters
SMRU 5044888 (Exp. 07/31/2028)

Eagle Strategies LLC

PROTECTION. RETIREMENT.
INVESTMENT. ESTATE.
Trusted Guidance. Comprehensive Solutions.