

Will I Receive A Step-Up In Basis For This Gifted Property?

A step-up in basis refers to an increase in the cost basis of an asset when it is transferred, which can help reduce capital gains taxes when the asset is sold. However, in most cases, there is no step-up in basis when property is gifted. The “Will I Receive A Step-Up In Basis For This Gifted Property?” flowchart can help individuals determine their cost basis in gifted property, considering factors such as:

Double basis rule: If the fair market value (FMV) of the gifted property on the date of the gift is lower than the donor's adjusted basis, the recipient's basis is the donor's adjusted basis. If the FMV is higher, the recipient's basis is the FMV. Impact of gift tax paid by the donor: If gift tax was paid on the gift, the recipient's basis is increased by the amount of gift tax paid. Situations where cost basis carries over: Some gifted property may carry over the donor's adjusted basis, such as gifts between spouses or gifts to a revocable trust. Situations where there is a partial step-up in basis: In some cases, only a portion of the gifted property receives a step-up in basis, such as in the case of a partial gift of property held in joint tenancy with right of survivorship. Situations where no gain or loss is recognized: If the gifted property is sold for less than the donor's adjusted basis, no gain or loss is recognized. If it is sold for more, the recipient will owe capital gains tax on the difference.

By considering these factors, individuals can determine their cost basis in gifted property, which can help them make informed decisions about their tax obligations and financial planning.