Land Owners Beware of Biden's New Death Tax
By Daniel Savickas

The last year and a half has been rough on the American economy. Policymakers have tried to assuage this pain by getting more money into the hands of the American people, whether it be through direct stimulus checks or temporary tax breaks. However, a pending proposal by the Biden administration would have the American people paying significant sums to Uncle Sam if a loved one passes away. Residents of of your state are no exception.

The proposal — lumped in with Biden's broader tax agenda — would eliminate a provision of tax law called the "stepped up basis rule." This rule is in place to guard inheritors from paying taxes on assets that have appreciated in value since the original owner first acquired it. For example, if a plot of land was worth $500,000 at the time of the initial purchase, but is worth $2 million when the owner passes away, the stepped up basis rule ensures the inheritor pays taxes based on the new valuation.

Without the stepped up basis rule, there is a snowball effect when it comes to taxation at the time of the death of a loved one. In the above scenario, the inheritor would have to pay a 40 percent estate tax on their inheritance. In the absence of a stepped up basis, they will also be subject to a capital gains tax based on a $1.5 million gain because of the property's appreciation over time. This is counter-intuitive, as the property never increased one cent in value under the inheritor. The new tax law would treat the inheritor as if they'd owned it forever.

As inflation grows out of control and the value of land naturally increases over time, this tax change spells disastrous news for landowners. Without the stepped up basis rule in place, the data shows residents can expect to shell out their hard-earned money to the government in the event of an untimely family death.

However bad this might seem at first, it is actually much worse upon further evaluation. Estimates on the expected impact of this rule change were generated under a couple of assumptions. The first is that the land in question was acquired in 1997 and sold in 2020. This means that the extra tax will be substantially higher for land that is held for a longer period of time. This will add up over time and devastate anyone who is not already super wealthy.

The data also assumes a 20 percent tax rate. While the current tax rate for capital gains is indeed 20 percent, this will not be the case with Biden's new plan. Beyond repealing the stepped up basis rule, the administration would also raise the capital gains tax rate to 39.6 percent — nearly double the previous rate. So, actual tax increases per acre are effectively double what's advertised. This sadly comes at a time when we should be encouraging land ownership.

The snowball does not stop rolling here, however. While the *federal* rate would be 39.6 percent, residents would be subject to additional state and local capital gains taxes. This just adds more of a tax burden onto families who are no doubt suffering from the loss of a loved one.

Given that land is not a liquid asset, the solution many will have to turn to is to sell their property. Many families, especially in more rural parts of the country, are asset rich but cash poor. When the government comes knocking for cold, hard cash, families have to come up with it somehow. Sadly, this change in the tax laws will result in the sale of land that has been in one family for generations.

All the federal government is doing is making it more risky to own land in states. Coming out on the other side of a global pandemic should spell good news and renewed economic activity. Instead, this move by the administration would stifle the economy and discourage property ownership. This is the exact opposite signal they should be sending. Taxpayers across the nation should be very afraid if this change becomes law.