

[Firm Name]  
[Address Line 1]  
[Address Line 2]  
[Phone Number]

[Date]

[Client Name]  
[Client Address]  
[City, State, Zip]

## **Re: Advisory Regarding Step-Up in Basis for Inherited Assets**

Dear [Client Name],

We are writing to provide you with important information regarding the taxation of assets inherited from the estate of [Name of Decedent]. Specifically, this letter outlines the "Step-Up in Basis" rule and how it impacts your future tax liability.

### **What is Step-Up in Basis?**

Under current federal tax law, when an individual inherits an asset (such as real estate, stocks, or a business interest), the cost basis of that asset is generally adjusted to its fair market value as of the date of the decedent's death. This adjustment is known as a "step-up" in basis.

### **Tax Benefits**

The primary benefit of a step-up in basis is the potential reduction of capital gains taxes. If you decide to sell the inherited asset, you will only pay taxes on the appreciation that occurs from the date of the decedent's death to the date of the sale, rather than the appreciation that occurred during the decedent's entire period of ownership.

### **Example**

If the decedent purchased a property for \$100,000 that was worth \$500,000 at the time of their death, your new tax basis is \$500,000. If you later sell the property for \$550,000, your taxable gain is only \$50,000, rather than \$450,000.

### **Required Documentation**

To accurately establish this new basis for your tax records, we recommend obtaining the following:

- Formal appraisals for real estate holdings.
- Financial statements showing market closing prices for securities on the date of death.
- Valuations for any private business interests or unique collectibles.

### **Important Limitations**

Please note that certain assets, such as IRAs, 401(k)s, and other tax-deferred retirement accounts,

do not receive a step-up in basis. These assets are typically treated as Income in Respect of a Decedent (IRD) and are subject to ordinary income tax when distributed.

Tax laws are subject to change, and individual circumstances vary. We recommend scheduling a consultation to discuss how these rules apply to your specific financial situation.

Sincerely,

[Your Name/Signature]

[Title]

[Firm Name]