A Starker Exchange for Family Homeownership Down Payments [August 2025]

PROPOSAL

- Exclusion/deferral of long term capital gains on a sale of up to $50,000 in stocks/bonds/mutual funds/publicly traded REITs or taxable gains (over exclusion) on the sale of a principal residence.

- 100% of sale proceeds must be gifted to a child or grandchild - and used by them within 6 months as a down payment on a first-time home purchase.

- An eligible child or grandchild must be a "first time homebuyer" – using the same definition that applies to a penalty waiver for an IRA withdrawal for a first-time home purchase.

- The purchase price of the home cannot exceed the FHA single family loan limit in the local area.

- The capital gain that is excluded is subtracted from the basis of the 1st time home purchase.

  This creates a new type of Starker (1031) Exchange, with a tax deferral where the homebuyer would later pay a capital gains tax if the $250k/$500k principal residence exclusion is exceeded.

- The $50,000 cap is a lifetime cap for each taxpayer. However, the exclusion may be taken for more than one child or grandchild, subject to the $50,000 cap.

- Mutual fund capital gains distributions would not be eligible, as these are not voluntary sales.

BACKGROUND

- *"For first-time buyers, a major challenge is coming up with a down payment, which can be exacerbated by rising home prices."* **[Office of Comptroller of the Currency On Point 9/24]**

- Countless articles have highlighted the significant financial challenges younger families and individuals face in saving up cash for a down payment: [**NY Times**; **CNET**; **WSJ**: **and WSJ**]

- Tens of trillions of dollars are tied up in stocks, mutual funds, and REITs with taxable gains.

- It makes no sense to have seniors with appreciated stock elect to hold the stock until they die to get the basis step-up and only then pass the assets along to their children and grandchildren. This proposal allows the same tax outcome NOW to help their children or grand-children buy a home.

- This quasi Starker exchange proposal for principal residence real estate is a targeted, tax-efficient way to unlock these investments to help the next generation(s) buy a home.

- Factoring in the high percentage of stocks that will end up using a basis step-up, the taxpayer cost per dollar of down payments is significantly lower than other programs like HOME or CDBG.

  E.g., use of $10,000 in CDBG funds for a down payment costs taxpayers $10,000 – but would cost taxpayers only $750 [assuming a 50% gain to date] – and then only many years from now when the stock is otherwise sold – or in most cases $0 if the stock is otherwise held to death.