2026-1-15

Curr RE

ECO

GTK

WSJ Print Edition

Indexing capital gains for inflation would free up the housing market and raise billions in revenue.

Selling a Home Is Too Taxing

By Jeff Yass And Stephen Moore

President Trump says one of his top priorities is to bring down the cost of buying a home. Among his proposals are a prohibition on institutional investors' buying houses and an expansion in the loan portfolios of Fannie Mae and Freddie Mac.

Here's a much better idea—one that would make homes more affordable and raise at least $100 billion of federal revenue: index capital gains on the sale of residential real estate for inflation. The tax on investment profits, which runs as high as 23.8%, is based on nominal gains. If you bought an asset 40 years ago for $2,000 and sell it for $6,000, you'll pay tax on the $4,000 gain—even though the value of the asset has only barely kept up with inflation.

To translate that into real-estate terms, suppose you and your spouse live in a house you bought in 1986 for $400,000, and that today the property is worth $2.5 million. If you sell it for a paper gain of $2.1 million, you get a $500,000 exclusion (assuming you file jointly) and pay taxes on the remaining $1.6 million nominal gain.

But the $400,000 you paid for the house in 1986 dollars is the equivalent of around $1.2 million today, so the inflation-adjusted appreciation in value is only $1.3 million. Your real taxable gain would be $800,000—half of the currently taxable nominal gain. (The $500,000 exclusion, which Congress enacted in 1997, was meant in part to compensate for this, but it isn't indexed for inflation either.)

Americans are sitting on roughly $55 trillion in nominal unrealized gains in the value of homes and other real estate. That's one reason why, as home values rose during the recent inflationary period, sales declined from more than six million homes in 2021 to a little over four million in 2025.

Note

Millions of empty-nest baby boomers want to downsize and retire but are discouraged from doing so by the prospect of a huge tax bill. That's called the lock-in effect of the capital-gains tax. It denies the government massive tax revenue and creates a perverse incentive to store wealth away untouched for decades. A 2020 Brookings Institution analysis put it this way: "Lock-in encourages investors to retain their assets when the economy would benefit from a redeployment of investment capital to higher return ventures or properties."

Investors and homeowners react quickly to changes in capital-gains tax rates. The Steiger Amendment of 1978, which reduced the top rate from 49% to 28%, had a large unlocking effect. So did the tax cuts signed by Presidents Reagan in 1981 and Clinton in 1997, both of which cut the rate from 28% to 20%. (The Tax Reform Act of 1986 raised it back.)

One reason aging homeowners don't sell is because there's one way of avoiding the capital-gains tax: by dying. When your house passes to your estate, a tax-code provision called the step up in basis at death kicks in, and your gain forever goes untaxed. When your heirs sell the house, they pay tax only on the difference between the value at your death and the sale price.

Indexing would give the government a piece of the gain while freeing up homes for young families. Mr. Trump should urge Congress to enact this win-win tax cut immediately.

Mr. Yass is a co-founder of Susquehanna International Group. Mr. Moore is a co-founder of Unleash Prosperity and a former senior economic adviser to Donald Trump.