



# POLICY FOCUS

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## Protecting Your Wealth from the Tax Man: Reforms to Capital Gains Taxes

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### HIGHLIGHT

Assets like homes or stocks that people have purchased with their own, after-tax money should be a source of economic security for Americans, not aggravating tax liabilities. Indexing capital gains and exclusion limits on property values to reflect inflation creates a fairer system that will free people from taxes on inflationary gains and protect homeowners from tax burdens that keep them locked into their homes, drying up housing supply.

### INTRODUCTION

U.S. households and nonprofits hold **\$197 trillion** in assets, including real estate, stocks, bonds, cash, and other investments. Assets rise and fall in value over time, sometimes even daily, but Americans build wealth through a combination of homeownership and long-term savings and investments.

Investors gain when an asset is valued above its purchase price, and they incur a loss when it is valued below the purchase price. However, these values are “unrealized” until the asset is sold; then it becomes “realized.”

The distinction between realized and unrealized gains is important for household finances, especially for tax purposes. Americans pay taxes on realized capital gains, and the tax rate depends on how long the asset holder has held the investment.

High inflation rates experienced over the past four years have pushed up the values of assets such as property. However, increased nominal gains mask potential real losses that create sizable tax burdens for many households.

We can address this unfairness by adding capital gains to the growing list of tax provisions that are indexed for inflation. This ensures that this form of wealth is treated equitably to others in the tax code and that households are protected from future price spikes that could erode their financial security.

Indexing capital gains for inflation is a financial safeguard for many women. Widows who outlive their spouses are protected from inheriting a big tax bill, and it preserves more of the assets that female entrepreneurs depend on to fund their enterprises.

## HOW CAPITAL GAINS TAX WORKS

Capital gains taxes can affect virtually anyone selling an asset. Investments subject to capital gains tax include stocks, bonds, mutual funds, real estate, and valuable personal property, including artwork, jewelry, and collectibles. High-income taxpayers are typically more subject to the tax because more of their income flows from capital gains.

If an asset is held for more than one year before being sold, the capital gain or loss

is long-term. A short-term gain or loss is incurred on an asset held for one year or less. The **Internal Revenue Service** determines capital gains tax rates. As of 2025, depending on the taxpayer's tax bracket, capital gains tax rates are 0 percent, 15 percent, or 20 percent, with a slightly higher rate for gains on collectibles (28 percent).

### EXAMPLE

Suppose that a woman purchases a share in a company for \$100 and, two years later, it's worth \$150. She has an unrealized gain of \$50. If she sold it then, she would be taxed on the \$50 gain. However, she holds the stock for another six months before deciding to sell her share. Unfortunately, due to a market downturn, the stock is only valued at \$85. Her \$50 gain has fallen to a \$15 loss.

There are different proposals to reform capital gains taxes. The Left generally aims to increase the amount of capital gains subject to taxation, particularly among higher-earning households. The Right generally wants to exempt more profit from taxes. Tax policy should aim to provide greater tax relief for households as economic conditions change.

## INDEXING CAPITAL GAINS FOR INFLATION

Inflation (or price increases) on goods and services erodes household purchasing power by consuming more earnings for the same quantity of goods. Simultaneously, inflation raises the real costs of holding assets, increases taxable income, and pushes tax rates higher on different investments. Although assets rise in value, inflation-related gains do not increase

real wealth. Instead, they can leave asset holders with substantial tax burdens and discourage the sale or transfer of assets such as property, which may **contribute** to the current housing shortage.

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For decades, the inflation rate remained low and stable, hovering at or below the Federal Reserve's two-percent target rate. Over the past four years, due to massive federal spending and loose monetary policy, inflation skyrocketed to a 40-year high. On paper, American households grew wealthier through stock market gains and ballooning home values. However, real losses could become taxable when asset holders cash out their investments.

### EXAMPLE

#### **NOMINAL GAINS, BUT REAL**

**LOSSES:** Suppose that a person bought \$100 of stock in a company in 1965 and sold it for \$120 in 1980. This is a \$20 nominal gain. However, because of inflation, it took \$2.62 in 1980 to buy the same goods and services that a person spent \$1 on in 1965. To keep pace with inflation, the stock would have had to increase \$262. So, adjusting for inflation, the investor actually lost \$142 (\$262-\$120). Taxes on the \$20 nominal gain are really taxes on a \$142 loss.

Policymakers should index capital gains for inflation to decrease the amount of profit

subject to taxation and prevent massive tax bills on inflation-related asset gains. There is ample precedent for such an action. We already adjust different tax provisions for rising prices, such as income tax brackets, income thresholds for some tax credits, and standard deductions. The One Big, Beautiful Bill Act (OBBA), a tax cut package passed in 2025, indexed the child tax credit, employer-provided childcare credit, employer educational assistance, and even Form 1099 reporting thresholds for inflation.

### EXAMPLE

#### **INDEXING CAPITAL GAINS FOR**

**INFLATION:** Suppose a person purchased a \$10,000 asset in 2015 and sold it for \$20,000 in 2025. This is a \$10,000 nominal gain. However, \$10,000 is the equivalent in purchasing power to about \$13,629.74 in 2025. When indexed for inflation, the seller would be taxed on a gain of \$6,371 compared to \$10,000, generating big savings.

#### **Indexing for inflation is an economic booster**

The macro impact of indexing capital gains for inflation could be immense. In 2019, two dozen U.S. senators **asked** the Treasury Secretary to exercise executive authority in adjusting capital gains for inflation. They noted that it would “unlock capital for investment, increase wages, create new jobs, and grow the economy,” by incentivizing “investors to realize gains on their investments, which opens up those dollars to new, more efficient allocations.” According to 2018 **estimates** by the Tax Foundation, this policy would grow the economy by approximately \$22 billion over the long run. After-tax incomes

would rise by 0.2 percent on average for all taxpayers, and an additional 21,800 full-time jobs would be created. Although this proposal reduces federal revenue by an estimated \$178 billion, some of that would be offset by economic growth.

The previous Trump administration was open to the idea, but did not act upon it. In just a few years, inflation would ravage American households. Now that major tax provisions have been made permanent, the time is ripe to finish the work.

### **Women benefit from indexing capital gains for inflation**

Women could uniquely benefit from this inflation-adjusted capital gains proposal. Statistically, women tend to live longer than men. They inherit their spouse's assets and assume control over the household finances. Additionally, women are often left in control of finances as a couple nears the end of life, and have to manage decision-making, including when to move into a smaller home or assisted living for the couple. Tax laws can make these decisions more fraught. Holding appreciating assets, particularly property, for many years can lead to financial gains on paper. Still, when inflation is not accounted for, the real value of those assets could be much lower. Women face taxes, potentially on what could actually be real losses.

Thankfully, for her primary home, a widow (or widower) under current law could take a \$500,000 exclusion on the gains from the sale, if the property is sold within two years of the spouse's passing. After two years, a widow can exclude only \$250,000 of capital gains. While there's no guarantee that the surviving spouse will owe capital gains taxes, it's possible that

they could incur capital gains taxes on losses despite the favorable tax benefits.

Navigating such complex rules while managing grief or navigating other life changes can be daunting. Eliminating some of the concerns about heightened tax burdens will improve women's financial position as they age.

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### **INCREASING THE CAPITAL GAINS EXEMPTION ON PRIMARY HOMES**

Homes are one of Americans' largest assets and sources of wealth. When a homeowner sells his or her property, the tax code permits him or her to exclude \$250,000 of gain (and married couples filing jointly up to \$500,000) from taxes. The exemption may be taken only once every two years. This exclusion exempts the capital gains for a large majority of homeowners.

The federal government has not increased these amounts since 1997. In light of both high inflation and the rapid expansion of home values, there is legitimate concern that built-up home equity outpaces this exclusion. The Tax Foundation finds that, in today's dollars, the exclusions would need to be **\$382,000 and \$764,000**, respectively, to provide the same level of relief.

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taxable gains when they sell their primary home. That number is expected to grow to 56 percent of homeowners by 2030. According to **NAR**, “this erodes family wealth right when people need it most. It discourages older owners from downsizing or moving closer to care. And it keeps larger, family-sized homes off the market, fueling the inventory crunch that’s driving up prices for everyone.”

One solution that enjoys bipartisan support is to roughly double the current exemption to \$500,000 for individuals and \$1 million for couples and to index these levels for future inflation. Another proposal would entirely eliminate the federal capital gains tax on the sale of primary residences.

At a minimum, these exemptions should be indexed for inflation. However, both approaches would provide tax relief to homeowners. From a macro perspective, they would encourage home sales and increase housing supply nationwide by breaking the “**lock-in effect**” that discourages seniors from selling after years of holding onto their homes, fearful of a substantial capital gains tax.

## **THE FOLLY OF TAXING UNREALIZED GAINS**

One of the most troubling policy solutions that gained steam during the 2024 election was to tax unrealized capital gains. As noted, profits on assets are not taxed until they are sold, becoming realized gains. Former Vice President

Kamala Harris proposed taxing capital gains before they are sold and realized.

A perennial idea from lawmakers on the Left, taxing unrealized gains, would be an economic disaster. In addition to the complexity of administering this proposal and the likelihood of tax avoidance outweighing the expected windfalls, it would be financially devastating to American households and businesses, particularly those led and owned by women.

A tax on unrealized gains creates liquidity challenges for asset holders. Since the tax is not assessed on actual funds received, investors would have to use their own cash to pay it. Not all assets—such as jewelry, artwork, and ownership shares in family businesses—have cash flow. If investors lack the funds, they might be forced to sell assets, even at a loss, to pay the tax bill, placing them at a financial disadvantage.

In addition, taxing unrealized gains reduces the capital that entrepreneurs and small business owners can tap into to start and grow businesses. Economists **find** that taxes on capital and wealth, such as wealth taxes, are “likely to influence entrepreneurship negatively by affecting the pool of capital available for start-up businesses as well as reducing the net return to successful entrepreneurs.” Self-employment rates were **33 percent** lower in Organization for Economic Co-operation and Development (OECD) countries that imposed a wealth tax than in countries that did not tax wealth. When countries abolished their

wealth taxes, self-employment increased by between 0.2 and 0.5 percentage points.

The complexity and cost of collecting taxes on unrealized gains would be burdensome for the federal government. One problem is valuing assets. The market value of jewelry, furniture, artwork, pensions, and farm equipment would have to be ascertained by professionals at a cost to the investors. Wealth held in trusts or ownership shares could be subjective and difficult to calculate.

Furthermore, a new tax on assets might encourage Americans to flee or to transfer their assets abroad. France abolished its wealth tax in 2017 after the government estimated that **10,000 people** holding assets worth a combined €35 billion emigrated from the country over 15 years.

### **Women would be disproportionately impacted**

Taxing unrealized gains has especially harsh consequences for women in different ways. **Research** finds that women's investment behaviors differ from those of men. They tend to hold their investments for a longer term than their male counterparts, and are trading investments "up to 50% less frequently than men." While men engage in trading activities that allow them to realize gains and losses, women are more likely to have unrealized gains from their investments.

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Since women generally outlive men, they are making financial decisions about investments for many more years into their lives, especially in retirement, when cash flow is often tighter. Yet, women consistently exhibit **lower financial literacy** than men, which could have negative consequences when navigating complex financial issues like capital gains taxes.

Taxes on wealth and capital also pose challenges that are particularly troubling for female entrepreneurs. Generally, it's more difficult for women to gain access to capital than men, so they rely more on household assets to fund their enterprises. For example, despite owning **34 percent** of the nation's businesses in 2024, female-founded companies garnered just **2.3 percent** of the total capital invested in venture-backed startups. Men start their businesses with **six times** more capital than women. **Research** indicates that women struggle to obtain bank financing, and even when successful, they face smaller loan amounts and higher interest rates than their male counterparts. Thus, taxing unrealized gains will further reduce their access to critical funding sources.

## **CONCLUSION**

Indexing capital gains for inflation will continue conservatives' pro-growth tax agenda that began in 2025 with making the 2017 tax cuts permanent, cutting unpopular taxes on working Americans, and indexing provisions for inflation. Adjusting tax policy for future inflation protects Americans' wealth and empowers women to build enterprises and secure their futures.

## WHAT YOU CAN DO!

### Get Informed:

Learn more about capital gains. Visit:

- [Economic and Budgetary Impact of Indexing Capital Gains to Inflation](#)
- [Taxing Wealth and Capital Income](#)
- [Homeowners Face a Stiff Penalty for Staying in Their Homes Too Long—a Hidden Home Equity Tax](#)

### Talk to Your Friends:

Help your friends and family understand these important issues. Tell them about what's going on and encourage them to join you in getting involved.

### Become a Leader in the Community:

Start an Independent Women's Network chapter group so you can get together with friends each month to talk about a political/policy issue (it will be fun!). Write a letter to the editor. Show up at local government meetings and make your opinions known. Go to rallies. Better yet, organize rallies! A few motivated people can change the world.

### Remain Engaged Politically:

Too many good citizens see election time as the only time they need to pay attention to politics. We need everyone to pay attention and hold elected officials accountable. Let your Representatives know your opinions. After all, they are supposed to work for you!

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Independent Women is dedicated to building support for free markets, limited government, and individual responsibility. Independent Women, a non-partisan, 501(c)(3) research and educational institution, seeks to combat the too-common presumption that women want and benefit from big government, and build awareness of the ways that women are better served by greater economic freedom. By aggressively seeking earned media, providing easy-to-read, timely publications and commentary, and reaching out to the public, we seek to cultivate support for these important principles and encourage women to join us in working to return the country to limited, Constitutional government.