

**NEBRASKA TAXPAYERS FOR FREEDOM ISSUE PAPER:  
END THE INFLATION TAX ON CAPITAL GAINS.**

**BACKGROUND.** Ending the inflation tax on capital gains involves adjusting the cost basis of assets for inflation, ensuring that taxes apply only to real gains and not inflationary gains. According to the Tax Foundation, 1/3rd of all unrealized capital gains stem from inflation. The capital gains tax applies when an asset sells for more than its purchase price, that gain subject to federal income tax. Assets held for less than a year taxed at ordinary income tax rates, which top out at 37%. Assets held for 1 year or more face a lower rate, with a top statutory rate of 20% plus a 3.8% net investment income tax, for a combined 23.8%, plus state income taxes. The capital gains tax is a second layer of tax on income already taxed when earned. Both President Trump and fiscal conservative congressmen want to end the inflation tax on capital gains. They need taxpayer support!

**THE REASONING.** Remedial legislation would boost investment, promote economic growth, and increase fairness. It would boost 401(k)s, IRAs, and 529 savings accounts. Federal law indexed our tax brackets to inflation for a reason. A worker who receives a raise that barely keeps pace with inflation should not face a tax increase. The same principle should apply to savings. Ending the inflation tax on savings will result in hundreds of billions of dollars in unlocked investments, with the resulting capital reallocated more efficiently. The result will create more jobs and higher take-home pay for families. The capital gains tax now encourages staying in appreciated homes, discourages relocating or downsizing, and raises the after-tax cost of investing in the housing market.



The economic distortions of the capital gains tax appear whenever an asset expected to appreciate over time. Homes, businesses, land, stocks, precious metals, artwork, and cryptocurrencies all face the same basic penalty for being sold or exchanged after appreciation. Consider a worker who earns wages during his career. Those wages taxed through the income tax and payroll tax before he ever sees the money. After paying those taxes, he spends some of his income immediately and saves the remainder. Eventually, he can buy a home. Over the next 30 years, the house appreciates. Some of that increase reflects real improvements and higher demand. Other of it simply stems from inflation. The

rate of return on an asset is what the market pays people to defer consumption, to save the money instead of spending it. When he finally sells the home, the tax code treats the difference between the sale price and the original purchase price, plus improvements, as a taxable capital gain. The more the government takes, the less saving rewarded. Thus, instead of putting money into a home, a business, or the stock market, the capital gains tax gives workers a stronger incentive to spend the income when first earned. This depressive effect on investment slows wider measures of economic growth. The lock-in effect also becomes stronger over time. Long-held assets tend to accumulate large nominal gains, and delaying realization can reduce effective tax rates. This situation is especially true for older owners whose assets will benefit from step-up in basis at death, which allows property to become inherited at its current market value, eliminating the capital gain, and allowing it to become sold with little or no tax. The result is that owners of assets with large potential gains delay sales and avoid reallocating capital to more productive uses to avoid the tax. For example, a homeowner may stay in a house that no longer fits his family or job, because selling would trigger a large tax bill. A landlord may hold onto a rental property rather than sell to a tenant or developer, because the tax on the gain makes the transaction unattractive. Indexing capital gains for inflation would prevent the tax code from treating rising prices as real income. It would reduce effective tax rates and mitigate some lock-in effects. Indexing also adds complexity and, without indexing other parts of the tax code, could create new tax planning opportunities.<sup>1</sup>

**MORE REASONS.** High inflation multiplies the damaging effects of double taxation on investment. Because the tax code does not index capital gains for inflation, investors can suffer from taxes on investments that prove unprofitable. To illustrate, consider that at the current rate of inflation, prices in the economy will double in less than 10 years. So, if you buy an asset today for \$10,000 and sell it for \$20,000 after 10 years, you would have the same purchasing power after the sale as when you started. Despite gaining no real wealth from your investment, you would still owe tax on the \$10,000 “gain” through inflation. By indexing capital gains for inflation, policymakers would ease the burden of inflation and rectify this unfair, anti-growth feature of our tax code. The

<sup>1</sup> Cato Institute, Adam Michel, [How the Capital Gains Tax Locks Americans in Place](#), Jan. 26, 2026.

dynamism of the American economy relies on capital flowing freely among individuals who save and businesses that rely on that capital to invest, compete, and provide good jobs for their employees. Arbitrarily taxing investors based on the level of inflation prevents that from occurring. For decades, countries around the world have reduced taxes on savings and investment, while the U.S. has lagged behind. Even if the U.S. indexed for inflation, its level of capital gains taxation would remain high by international standards. The average country in the Organization for Economic Cooperation and Development has a top marginal capital gains tax rate of 19.1%. Including the average state taxes and the net investment income tax, the top capital gains tax rate in the U.S. is 29.2%. The U.S. was once the best place for business and investment and could rise to that place again, but Congress must reform the tax code to reduce the penalty on saving. The current tax code stifles economic growth and places hurdles in the way of Americans who want to save and make the best possible investment for their family futures.

**THE LOCK IN EFFECT.** The lock-in effect happens when high capital gains taxes cause investors to hold assets longer than they otherwise would keep them. First, capital gains taxed only after individuals sell or transfer assets, so investors can defer taxes by holding them longer. By its nature, taxing “unrealized” capital gains in the value of an asset before the asset is sold means taxing people on income that they have not yet earned. Second, a higher capital gains tax rate applies to assets sold after less than a year. The higher tax rate on short-term capital gains encourages people to hold assets for at least 12 months to qualify for the lower rate. Finally, the graduated rate structure of capital gains taxes discourages taxpayers from selling assets in years when they sit in the top tax



bracket. High inflation, like that during the Biden Regime, will exacerbate these lock-in effects, delaying or preventing capital from flowing to companies offering the highest return on investment. That situation will starve startups and small businesses of needed funding, leaving a less dynamic economy and fewer opportunities for American businesses and workers. Instead of letting the economy suffer in the name of Biden Regime “fairness,” Congress must remove government-imposed barriers holding America back. Indexing capital gains for inflation would increase investment, protect Americans against inflation, boost growth, and build wealth for future generations.<sup>2</sup> Under a progressive income tax system, if an

asset held for a number of years, taking all of the profit as income in one year could push a taxpayer into a higher tax bracket than he would have been in had the gains become realized as they accrued. If individuals face a high tax rate, they are unlikely to sell their securities and pay taxes on the capital gain. This lock-in effect is especially problematic for small, start-up companies, because investors locked into previous investments have a reduced incentive to sell those stocks in favor of new offerings by young companies. Because capital gains currently not indexed for inflation, some of the perceived gain is illusory and represents no real increase in purchasing power. For example, if you buy stock worth \$1,000 today, sell it for \$1,500 in 10 years, and pay taxes on the entire \$500 appreciation, much of your taxable income from the sale would derive from aggregate inflation instead of an increase in the real value of the stock. In extreme cases, the effective tax rate on the real capital gain may exceed 100%. Thus, a reduced incentive to sell those stocks in favor of new offerings by young companies. The problem is made worse, because when investors leave assets to their heirs, the heirs can usually avoid paying taxes on the asset appreciation from the original purchase price. In the previous example, if instead of selling your stock at \$1,500, you held on to it and left it to your heirs, they could sell it immediately upon receiving it and pay no taxes on the capital gain you accrued during your lifetime. This effect creates a strong disincentive for many people to sell assets, especially ones they have held for many years.<sup>3</sup>

**THE MECHANISM.** Remedial legislation would adjust the original purchase price of an asset upwards based on inflation during the holding period, reducing the capital gain when sold. It would treat capital gains exactly how tax brackets and deductions indexed. Rather than having to pay tax on both real and inflationary gains, a family or business selling an asset would pay tax only on the real gain or the gain derived from economic growth.

**SENATE BILL.** To implement this reform, Sen. Ted Cruz (TX.) introduced [S. 798](#), the Capital Gains Inflation Relief Act of 2025. Sen. Thom Tillis (N.C.) is a cosponsor. The bill would amend the Internal Revenue Code of 1986 to index capital assets such as stocks, stocks in specific foreign corporations, bonds, digital assets, and real

<sup>2</sup> Heritage Foundation, Preston Brashers & Joshua Loucks, [It’s Time to Stop Taxing Inflation and Start Indexing Capital Gains](#), March 10, 2022.

<sup>3</sup> Andrew Meyer, [Should We Ax the Capital Gains Tax?](#) July 1, 2025.

estate for inflation, ensuring taxpayers not taxed on inflationary gains. The legislation ensures that an individual's cost basis in a capital asset receives the same fair and equitable treatment as in other areas of the tax code such as individual income tax brackets, the standard deduction, and income thresholds of specific tax credits by indexing the basis for inflation for the purpose of determining a gain or loss. The legislation, covering these assets held for over 3 years, seeks to eliminate taxes on inflationary "phantom gains" for assets bought after the begin date.

This change

means that for tax calculations involving the sale of specific assets, taxpayers could adjust the asset basis for inflation, potentially lowering the amount of taxable capital gains when the asset sold. Sen. Cruz said, "The inflation



created by the Biden-Harris administration and Democrat lawmakers continues to erode Americans' savings, including by turning gains into an unfair tax burden. The Capital Gains Inflation Relief Act of 2025 addresses this issue by indexing the cost basis of capital assets to inflation, ensuring fair treatment for every investment." This measure will boost savings, spur investment, and create jobs nationwide. It is currently in the Senate Finance Committee, awaiting a vote to advance it to the full Senate for debate.

**PRESIDENT TRUMP.** Over 30 conservative groups sent a letter to Pres. Trump, urging him to use his executive authority to index capital gains to inflation by executive order. Several legal authorities and historical legal analyses contend that Trump and the Treasury Dept. have the authority to redefine the calculation of capital gains. The groups stated that indexing capital gains to inflation would offer a policy remedy for U.S. families who endured historic levels of inflation during the Biden Regime, that Americans who witnessed the erosion of their take home pay, home value, and life savings should not suffer a higher tax liability, that our tax system does not distinguish between these 2 increases in savings, the economic growth increase and the inflationary increase. The whole gain currently taxable.<sup>4</sup> In July, 2025, Trump indicated that his Administration would consider elimination of the capital gains tax on homes. Under current law, home sellers can face capital gains taxes once profits exceed \$250,000 for single filers or \$500,000 for married couples filing jointly. When home sales profits exceed \$250,000 or \$500,000, capital gains then levied at 0%, 15%, or 20%, depending on taxable income. Excess profit above those thresholds also can trigger the net investment income tax of 3.8%, depending on other investment earnings, according to the IRS. Since 1997, those thresholds never have become indexed for inflation, and more home sellers fall subject to capital gains as property values rise. Since 1997, the median home sales price has climbed by almost 190%, from about \$145,000 to about \$417,000, as of the first quarter of 2025, according to Federal Reserve data. Homeowners who have lived in their homes for decades, especially seniors in places where values have surged, should not have to stay in place because of an IRS penalty.

**TAKE ACTION NOW.** All Nebraska taxpayers who save and invest would benefit from this capital gains tax revision. The cost of living continues to rise. Taxes continue to increase. It is more difficult to save money. People want to invest their dollars to advance our economy. However, Socialist Democrats continue their congressional push to actually raise the capital gains taxes for everyone. Using the information above, lobby our 2 senators to support **S. 798** and endorse the effort by Pres. Trump to remove the inflation tax on all capital gains. Email [netaxpayers@gmail.com](mailto:netaxpayers@gmail.com) for senator contact information and join our NTF *Congress Watch Project*.

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<sup>4</sup> Americans for Tax Reform, Rachel Loren, [30+ Conservative Groups Back Trump to End the Inflation Tax on Capital Gains](#), Feb. 19, 2026.