

MONEY MYTHS SERIES

Buy, Borrow, Die: Does the Billionaire Tax Strategy Work for Regular Families?

How buy, borrow, die really works, what a market drop does to a securities-backed loan, and the math on borrowing versus selling for an ordinary family.

By Eric Ridley, attorney, Ridley Law · Updated September 2026 · Read online with live links: ridleylawoffices.com/buy-borrow-die/

Part of our [money myths series](#).

The claim: never sell anything. Buy assets, borrow against them tax-free to live, and when you die your heirs get a step-up in basis that erases the gain. That's how billionaires do it, and you can too.

The verdict: the tax rules are real, and the plan works for people with very large, highly appreciated portfolios who borrow a small fraction and can ride out a crash. For a regular household it means paying a lender interest for years on a loan that can be called at any time, often to avoid a capital gains tax that would have been small or zero. In a downturn the lender can sell your holdings for you, and that sale is taxable.

21%

Families that own stock directly; median holding \$15,000 (Federal Reserve, 2022)

\$100,000

Minimum account value many firms require for a securities-backed line of credit (FINRA)

57%

S&P 500 decline from October 2007 to March 2009 (Federal Reserve History)

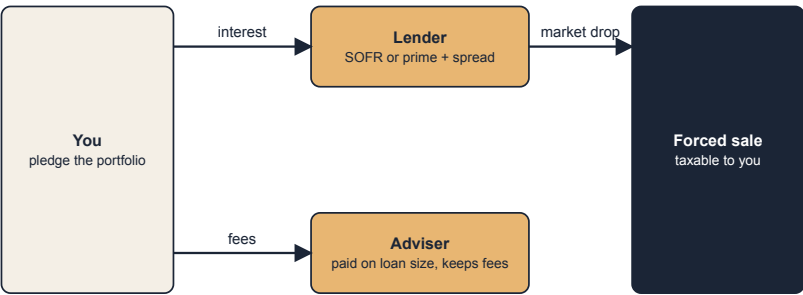
7.00%

Bank prime rate, October 2026 (Federal Reserve H.15)

\$1,754,607

Debt after borrowing \$40,000 a year for 20 years at 7%, interest rolled in (hypothetical)

Who gets paid when you follow this advice: the lender and, often, the adviser who set up the loan. FINRA says securities-backed lines of credit "can be a key revenue source for securities firms," and that your investment professional "might be paid based on a portion of the fees generated by your SBLOC. Some firms pay investment professionals on a quarterly basis depending on the size of your loan." The adviser also benefits because you don't sell assets, which would shrink "the potential fees and commissions that they could earn in the future." The SEC and FINRA call the SBLOC a "sticky" product because it makes it harder to leave the firm. The loan rate is a benchmark such as SOFR or prime "plus some stated percentage or 'spread.'" One large brokerage's published schedule charges SOFR plus 3.10% on lines from \$100,000 to \$499,999 and SOFR plus 1.90% on lines of \$3,000,000 or more, so the smallest borrowers pay the widest spread.



Who	How they're paid	Source
Lender	Interest at prime or SOFR plus a spread, which can change daily	FINRA
Adviser	"A portion of the fees generated by your SBLOC," sometimes based on loan size	FINRA; SEC and FINRA joint alert
The firm	Keeps the assets under management, since moving usually means paying off the loan	FINRA
You	Pay the interest, and the tax on any forced sale	FINRA; IRC § 1001

How does "buy, borrow, die" work?

It relies on three real rules: a loan isn't income, a sale is taxed and a loan isn't, and assets held until death get a new basis equal to their value at death (IRC § 1014).

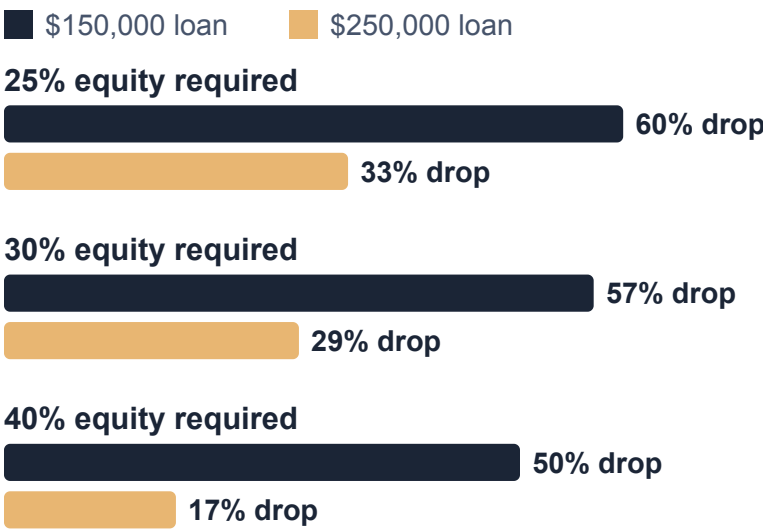
The Supreme Court explained the first rule in *Commissioner v. Tufts*, 461 U.S. 300 (1983): a borrower "incurs an obligation to repay that loan," and "because of this obligation, the loan proceeds do not qualify as income." A sale is taxed: gain is the amount realized over your basis, and it's recognized (IRC § 1001). At death, the heir's basis becomes "the fair market value of the property at the date of the decedent's death" (IRC § 1014(a)). So a stock bought for \$50,000 and worth \$500,000 at death passes with a \$500,000 basis, and the \$450,000 of gain is never taxed.

ProPublica's 2021 reporting on leaked IRS data described how this works at the top: take out a loan "and you'll pay a single-digit interest rate and no tax; since loans must be paid back, the IRS doesn't consider them income." It reported that Elon Musk had pledged some 92 million Tesla shares, worth about \$57.7 billion at the time, as collateral for personal loans. The Treasury Department has proposed treating gifts and deaths as sales, with a \$5 million per-donor exclusion, saying that favorable treatment of unrealized gains "disproportionately benefits high-wealth taxpayers." Congress hasn't enacted it. Our [step-up in basis](#) definition and [stepped-up basis in a California trust](#) explain the rule in detail.

What happens to a borrow-don't-sell plan in a market crash?

The lender can demand more collateral within days or sell your securities, and FINRA warns that you "could have to pay capital gains taxes on the proceeds from these sales," often without notice.

FINRA describes securities-backed lines of credit as "demand loans, which means lenders may call the loan at any time." If your account drops below what the loan requires, you get a maintenance call and usually two or three days to add collateral or repay. If you can't, "the firm can sell your securities and keep the cash." Margin accounts work the same way: FINRA Rule 4210 requires equity of at least 25%, and the SEC says many firms require 30% to 40% and can raise that "at any time" without advance notice. FINRA's required margin disclosure says it bluntly: "You can lose more funds than you deposit in the margin account."



Hypothetical. Margin-account benchmarks from FINRA Rule 4210 and the SEC; a securities-backed line of credit uses whatever trigger the lender's contract sets.

Equity the lender requires (25% is the FINRA margin minimum; 30% to 40% is common, per the SEC)	\$150,000 loan (30% of portfolio)	\$250,000 loan (50% of portfolio)
25% equity required	60.0%	33.3%
30% equity required	57.1%	28.6%
40% equity required	50.0%	16.7%

Equity the lender requires (25% is the FINRA margin minimum; 30% to 40% is common, per the SEC)	\$150,000 loan (30% of portfolio)	\$250,000 loan (50% of portfolio)
Real declines for comparison	S&P 500: 57% (2007 to 2009)	S&P 500: about 34% (Feb. to Mar. 2020); about 25% (2022)

A forced sale undoes the plan. You sell at the bottom, you pay the capital gains tax you were trying to avoid, and the step-up you were waiting for never arrives for the shares that were sold. The SEC and FINRA warned about exactly this in 2015: "you might be forced to liquidate your assets at the bottom of the market."

Has this hurt ordinary investors?

Yes: regulators have ordered firms to repay customers who were forced to sell to meet calls on securities-backed loans.

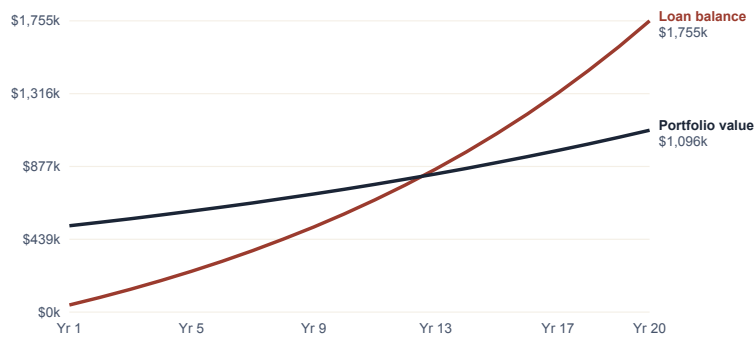
In 2015 the SEC settled with UBS Financial Services of Puerto Rico for \$15 million after alleging that one broker increased his compensation by at least \$2.8 million by having customers use credit lines from UBS Bank USA to buy more of the firm's closed-end funds. When the funds fell in August 2013, customers started receiving maintenance calls. FINRA separately fined the firm \$7.5 million and ordered about \$11 million in restitution "to 165 customers who were forced to realize losses on their CEF positions." In 2016 FINRA fined Merrill Lynch \$6.25 million over securities-backed loan accounts and found that 25 customers "with modest net worths and conservative or moderate investment objectives" lost nearly \$1.2 million liquidating holdings to meet margin calls. And in 2021 FINRA's \$57 million settlement with Robinhood Financial, which covered several violations, required the firm to repay \$1,653,366.51 that customers lost after erroneous margin call warnings.

The Federal Reserve estimates these loans peaked at \$174.7 billion in late 2022. They aren't a niche product, and the risk lands on the borrower.

What does borrowing cost compared with selling?

Usually far more: in our hypothetical, borrowing \$40,000 a year for 20 years at 7% with interest rolled in builds a \$1,754,607 debt, \$954,607 of it interest, while selling the same \$40,000 a year would cost between \$24,000 and \$211,840 in total capital gains tax, depending on bracket and how much of each sale is gain.

The 7% assumes SOFR of 3.90% (October 6, 2026) plus a 3.10% spread; the bank prime rate was 7.00% the same week. FINRA notes that interest "may be rolled into the balance, which, over time, can erode the value of your account or increase your indebtedness."



Hypothetical. \$40,000 drawn at the start of each year, 7.00% interest (SOFR of 3.90% plus 3.10%) added to the balance, no withdrawals from the portfolio.

Year	Loan balance	Portfolio (4% growth)	Loan as % of portfolio
1	\$42,800	\$520,000	8%
3	\$137,598	\$562,432	24%
5	\$246,132	\$608,326	40%
10	\$591,344	\$740,122	80%
13	\$862,020	\$832,537	104%
15	\$1,075,522	\$900,472	119%
20	\$1,754,607	\$1,095,562	160%

In 2026 a married couple pays 0% federal tax on long-term gains up to \$98,900 of taxable income and 15% up to \$613,700 (Rev. Proc. 2025-32). California taxes capital gains as ordinary income; the Franchise Tax Board says "California does not have a lower rate for capital gains."

Bracket (hypothetical, married filing jointly)	20-year tax if half of each \$40,000 sale is gain	20-year tax if 80% is gain
Fed 0% + CA 6%	\$24,000	\$38,400
Fed 15% + CA 9.3%	\$97,200	\$155,520
Fed 20% + 3.8% NIIT + CA 9.3%	\$132,400	\$211,840

Borrowing wins only if the portfolio's after-tax return beats a variable loan rate year after year, without a crash bad enough to force a sale. For a family in the 0% or 15% federal bracket, there's very little tax to save in the first place.

Who does buy, borrow, die actually fit?

People with large, highly appreciated taxable portfolios who can borrow a small fraction of their value, keep plenty of cushion, and expect to hold until death.

That's not most households. The Federal Reserve's 2022 Survey of Consumer Finances found a median family net worth of \$192,900. Only 21% of families owned stock directly, and their median holding was \$15,000. FINRA says it's "not uncommon" for a firm to require \$100,000 or more in assets to open a securities-backed line of credit. The asset most families do have, a retirement account (held by 54.3% of families, median \$86,900), doesn't fit the plan at all. Pledging an IRA as loan security means "the portion so used is treated as distributed" (IRC § 408(e)(4)), and inherited IRA money gets no step-up; it's taxed to your heirs as income in respect of a decedent (IRC §§ 691, 1014(c)); our [inherited IRA tax map](#) explains how.

The home-equity version, borrowing against your house to "never sell," carries the same problem with a bigger downside. The CFPB's warning on home equity lines is direct: "If you fall behind or can't repay the loan on schedule, you could lose your home." The life insurance version, borrowing against a whole life policy, is covered on our [infinite banking](#) page.

What part of this is legitimately good advice for California families?

The "die" part: holding appreciated assets until death instead of gifting or selling them is often sound, and California couples can get a step-up on both halves of community property.

The IRS says that when either spouse dies, "the total value of the community property, even the part belonging to the surviving spouse, generally becomes the basis of the entire property" (Publication 551; IRC § 1014(b)(6)). California follows the federal basis rules (Rev. & Tax. Code § 18031), has no estate tax for deaths after 2004, and taxes gains at ordinary rates, so the step-up is worth more here. Gifts during life don't get it: a gift carries over the donor's basis (IRC § 1015), and property you give someone who leaves it back to you within a year doesn't get a step-up either. Our page on [community property vs. separate property step-up](#) and [capital gains on inherited property](#) cover the details. None of this requires borrowing.

What should you do instead?

1 Hold appreciated assets you'd keep anyway

Let the step-up work at death, and keep community property titled as community property.

2 Spend from cash and high-basis assets first

Sell the lots with the least gain, and use years with low income to realize gains at the 0% federal rate.

3 If you borrow, borrow little and briefly

FINRA's advice: "consider taking less than what you're offered." A short bridge loan well below the limit is a different thing from living on debt for 20 years.

4 Put the plan in a living trust

Assets in a revocable trust still get the step-up, and your family avoids probate. Assets moved into some irrevocable trusts don't; see [step-up and irrevocable trusts](#) and [what trusts really do for the wealthy](#).

Question	Buy, borrow, die (household version)	Hold, spend sensibly, die
Tax on the money you live on	None now; interest instead	Capital gains, often 0% or 15% federal plus California
Cost over 20 years (\$40,000 a year, hypothetical)	\$954,607 of interest at 7%	\$24,000 to \$211,840 of tax
Crash risk	Maintenance call, forced sale, taxable gain	You choose when to sell
Step-up at death	On whatever wasn't sold, but the loan is repaid from the estate	On everything still held
Works with retirement accounts	No (pledging is a deemed distribution)	Normal distribution rules

Frequently asked questions

Is buy, borrow, die legal?

Yes. Borrowing isn't a taxable event, and the step-up at death is in the Code. The risks are financial: interest cost, margin calls and forced sales.

Is borrowing against stocks tax-free?

The loan proceeds aren't income. But if the lender sells your securities to cover a call, that sale is taxable to you.

What is a securities-based line of credit?

A loan secured by your brokerage account, usually 50% to 95% of the account's value depending on what you hold, at a variable rate. Lenders can call it at any time.

Does my family get a step-up if I have a loan against the portfolio?

The assets still held at death get a step-up, but the loan has to be repaid from the estate, so the heirs inherit the net amount.

Do I need to worry about estate tax on a buy-borrow-die plan?

Only above the \$15,000,000 federal exemption for 2026, and California has no estate tax. For most families the step-up is the main tax benefit at death; see our [California estate tax guide](#).

Can I use my house instead of my stocks?

You can borrow against home equity, but the CFPB warns that you could lose your home if you can't repay on schedule.

This page is general information about the law as of its update date. It isn't legal, tax, or investment advice for your situation, and reading it doesn't create an attorney-client relationship.

More myths from social media, checked against the actual rules: [the money myths series](#).

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Questions about your own plan?

Ridley Law helps California families with trusts, wills, trust administration and probate from Port Hueneme, serving Ventura, Santa Barbara and Los Angeles counties. The first call is free and runs 30 minutes.

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