

TAX BREAK FOR SALES OF INHERITED HOMES

Heirs of property are often concerned about the taxes they will owe on any gain from that property's sale. After all, the property may have been purchased by a deceased relative years ago at a low cost, but now has vastly appreciated in value. The usual question is: "Won't the taxes at sale be horrendous?"

Clients are usually pleasantly surprised by the answer – that special rules apply to figuring the tax on the sale of any inherited property. Instead of having to start with the decedent's original purchase price to determine gain or loss, the law allows using the value at date of the decedent's death as a starting point (sometimes an alternate date is allowed to be chosen). This often means that the selling price and basis in the property are practically identical and there is little, if any, gain to report. In fact, the computation often results in a loss, particularly when it comes to real property on which large selling expenses (realtor commissions, etc.) must be paid.

Other than possible large gains, sales of certain inherited assets can also cause other concerns – particularly the sale of the home that a decedent lived in just prior to death. Like other inherited real property, the sale often produces a loss. However, losses on personal use assets are not normally deductible. Since the decedent used the home personally, the worry is that any loss is going to be non-deductible.

Fortunately, under special circumstances, the courts have allowed deductions for losses on an inherited home. In order to deduct such a loss, a beneficiary must "within a reasonable period of time" after the decedent's death try to sell or rent the property. In one case, where a beneficiary was also living in the house with the decedent at the time of death, the loss on the sale was still deductible when the heir moved from the home and immediately attempted to sell or rent it.

Surviving Spouse -- The foregoing rules generally do not apply to a surviving spouse who inherits the deceased spouse's interest in a home. Special gain exclusion rules and stepped-up basis rules apply to surviving spouses.

Please call the office if you have any questions.