Should You Leave Your House to Your Kids?

Financial planners recommend answering these 5 questions before you decide

by John Waggoner, **AARP (http://www.aarp.org)**, Updated July 2, 2021 | Comments: 38

graphic illustration of a house

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En español (/espanol/dinero/presupuesto-y-ahorro/info-2021/deberias-dejarles-la-casa-a-tus-hijos.html?intcmp=AE-MON-TOSPA-TOGL-ES) | Your house, with its beautiful gardens, rows of bookcases and lovely keepsakes, is a treasure to you. It's probably also your largest financial asset. You'd like to give it to your children when you pass on.

Many times, it's not just a home's emotional value that makes people decide to leave the house to their heirs. It's a desire to leave a financial legacy (https://squaredawayblog.bc.edu/squared-away/retirees-intent-on-leaving-homes-to-kids/), too.

But is this a wise strategy? Oftentimes, yes, as long as everyone gets along, the house isn't stuffed with 50 years' worth of *National Geographic* and you don't mind if the kids sell it immediately after the funeral. We talked to several certified financial planners (CFPs) with experience in estate planning and found five questions you should answer before you make the decision to leave the old place to the next generation.

1. Is the house worth something?

As hard as it may be to believe in the current red-hot market, some houses are worth less than the owner paid for them. During the Great Recession (/work/working-at-50-plus/info-2020/lessons-from-great-recession.html), home prices fell 27.4 percent, and homes languished on the market for months. If you recently moved to a more expensive home with a big mortgage, your heirs may owe more than the house is worth if the housing market declines, and may have to pay utilities, mortgages and taxes as they wait for the house to sell.

The heirs don't have to take the house, even if you will it to them. The mortgage debt is between the bank and the signers. If the house is worth less than the loan, the bank will foreclose and sell the house to recoup what it can. If the heirs want the house, they will either have to take on the mortgage payments or pay off the balance — something that probably won't bring the happiness you envision. If you don't want to leave the house, it's probably a good idea to prepare them for what their options are when you die.

Try to be considerate. "If they do decide to remain in their current home, they could take steps to put their home in order, before they pass," says Gage Paul, a CFP in Hudson, Ohio. "They can begin decluttering their home (/home-family/your-home/info-2021/things-to-throw-away.html), sorting family heirlooms and disposing of any junk. ... This process could also prompt a discussion with the family about their intentions with the home and any instructions they would like honored."

2. Do the kids want the house?

In places where home prices are soaring, your children might very much appreciate inheriting your home. "Here in metro Boston, young families are being forced to look for affordable housing further away from the city — so if they can access housing via inheritance or affordable sales price, it is greatly appreciated," says CFP Catherine Valega. "In my town, Winchester, Massachusetts, many children inherit their parents' homes, or buy them from them at prices they could not afford on the open market, which is also a great strategy."

On the other hand, if your children are comfortably ensconced elsewhere, they may not want to move back home. Or they simply might need money more than they need your house. For many heirs, dealing with the clearing and sale of a house is a burden, especially if they live far away, says Rob Greenman, a CFP in Portland, Oregon. "There could be a preference of receiving liquid investments (/retirement/retirement-savings/info-2019/retirement-accounts-and-heirs.html) as opposed to physical assets that don't offer any income or liquidity properties," he says.

3. Do your kids get along?

The median U.S. home price — half are lower, half are higher — is $319,200. If you have several heirs and are leaving them a home worth several hundred thousand dollars, it may be hard for them to agree what to do with it.

"If the children are geographically located far away from the home, which is more common today, it can cause dissention amongst the beneficiaries — especially if one is doing all the maintaining — as they may not get full use and benefit of the intended home as an inheritance," says Gregory Giardino, a CFP in Hawthorne, N.J.

4. How is the house titled?

Rules vary by state, but for many married couples, a home is typically held in joint tenancy with right of survivorship (sometimes called tenancy by the entirety), meaning that if one spouse dies, the other has complete ownership of the house. If both spouses die at the same time, ownership of the home is decided by stipulations in their will (or, absent a will, by the state's probate laws).

It will be important, too, for the heirs to figure out how the house will be titled, and how ownership will work. What if one heir wants the money, and the other two want the house? In this case, the heirs who want the house will have to buy out the one who doesn't, either with cash or an intra-family financing agreement. The last resort, of course, would be the court system, which typically isn't the best place for family bonding.

Finally, are there any liens on the house for debts owed, such as back taxes or delinquent loans (/money/credit-loans-debt/info-2021/what-happens-to-your-debts-after-you-die.html), that would come due when ownership of the property changed? "Children are often surprised to learn of these," says Patricia Hausknost, a CFP in Long Beach, California. "If they exceed the value of the home, it is better to let the first lienholder know of the death and walk away."

5. What is the tax picture?

Uncle Sam wants a cut when a house is sold for a profit. How much of a cut comes down to what's called the cost basis of the property. Put simply, you are taxed on the difference between what you paid for the home and what you sold it for. But it's not that simple. For tax purposes, you can also add the value of certain expenditures, such as major renovations, to the purchase price of the home to increase your cost basis and in turn reduce the amount of profit you'd owe taxes on. Confused? The IRS has lots more on calculating cost basis (https://www.irs.gov/faqs/capital-gains-losses-and-sale-of-home/property-basis-sale-of-home-etc/property-basis-sale-of-home-etc-3).

Heirs get a break on cost basis. Under current law, when someone inherits a house (/home-family/your-home/info-2018/inheriting-a-house.html), they get what's called a step-up in basis, meaning that their cost basis for taxes is as of the date of their parents' death or the settlement of the estate. In other words, if they sell the house, the heirs won't have to base their capital gains tax on what their parents paid for the house. Suppose the parents bought the house for $50,000 in 1980 and the house was worth $319,200 the day the estate was settled. The heirs would have no profit on the house if they sold it immediately, and therefore no capital gains taxes due.

Parents could also sell their house today and, per the current tax code, have $250,000 of the profit excluded from capital gains for each person — meaning a $500,000 exclusion from gains for a married couple. Some parents are tempted to transfer title of the house to their children while the parents are still alive. "Don't do it!" Hausknost says. The heirs will be responsible for the house expenses, including liability, and they won't get the step-up in basis.

It should also be noted that one feature of President Joe Biden's current tax reform proposal (/politics-society/government-elections/info-2021/president-biden-agenda-older-americans.html) is the elimination of the step-up in basis. "From a financial perspective, without the step-up rule, it would make little difference if the original owner left the house to the heirs or sold it himself," says David Silversmith, a CFP in Plainview, New York. "But under current law, I would advise my clients to keep the house and leave it to their heirs."

John Waggoner covers all things financial for AARP, from budgeting and taxes to retirement planning and Social Security. Previously he was a reporter for Kiplinger's Personal Finance *and* USA Today *and has written books on investing and the 2008 financial crisis. Waggoner's* USA Today *investing column ran in dozens of newspapers for 25 years.*

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