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What to expect when you're due to inherit real estate

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They say where there's a will, there's a way. And if that will includes you as the sole or partial beneficiary of a home upon the death of a relative or friend, you'll need to prepare properly for the financial and personal ramifications, say the experts.

Being named as a beneficiary of real estate in a will can present challenges as well as rewards. Unless you're the surviving spouse – in which case legal transfer of the property to you should occur relatively quickly and seamlessly and without tax penalties – receiving an inheritance can be a long and complicated process. It could take several weeks for the executor of the estate and the courts to divvy up the deceased's assets and property, including the home.

Following the death, the executor will file the deceased's will in probate court, where a judge will determine the validity of the will. If it's considered valid, all property and assets are distributed according to the terms of the will.

Once ownership of the home is transferred to you, Uncle Sam may deduct federal, state and/or local taxes from the estate if its net taxable worth is more than a certain amount, says [Gary Altman](#), attorney and founder of Altman & Associates, [Rockville](#), Md.

"Inheritance tax is imposed on the transfer of assets, including real estate, at death," Altman says. "The rate is dependent on the relationship between the decedent and the inheritor. Estate taxes, meanwhile, are imposed on the value of the property at death. The Federal government currently has an estate tax for estates in excess of \$2 million dollars. Some states have an estate tax, some have an inheritance tax, and some, like [Maryland](#), have both."

To further understand the difference between the two, "an inheritance tax is an assessment made on the portion of an estate received by an individual. Eleven states still collect an inheritance tax – [Connecticut](#), [Indiana](#), [Iowa](#), [Kansas](#), [Kentucky](#), [Maryland](#), [Nebraska](#), [New Jersey](#), [Oregon](#), [Pennsylvania](#) and [Tennessee](#)," says [Dean Graziosi](#), author, "Be a Real Estate Millionaire" (Vanguard Press, 2007). "An inheritance tax differs from an estate tax, which is a tax levied on an entire estate before it is distributed to individuals."

If you were to inherit a home worth \$3 million, for example, "the federal estate tax would be \$450,000," says Altman.

If you decide to sell the inherited home, you will probably be required to pay capital-gains tax on the difference between what you net from the sale and your basis (the purchase price plus improvements minus depreciation). Currently, the federal capital-gains tax is 15 percent. If the property is a personal residence and you meet certain guidelines, you can exempt from capital-gains tax the first \$250,000 if single or \$500,000 if married, Altman says.

"Inherited property is taxed on the value of the property the day the owner died," says [Rob Harrington](#), founder/chairman, OptHome, [Southborough](#), Mass. "For instance, [John Smith](#) bought his home for \$10,000, but on the day he died his son inherited it and it was worth \$200,000. If John's son sells the property in a

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week for \$200,000, then he pays no capital gains tax."

It's easier to sell the home after death "because you get a new basis, value on the date of death, and therefore less capital-gains tax," says Altman. "However, some end up having to sell the home to pay the estate taxes due. If it is one parcel of land worth \$10 million, for instance, and there are no other assets, then you may have to sell the land to get the cash to pay the \$3.6 million in federal estate taxes, due within nine months of death."

After property is inherited, "it should be appraised to determine its fair market value at the time of death," Seth Marmor, a partner with Shapiro, Blasi, Wasserman and Gora law firm in Boca Raton, Fla., says. "This establishes the new tax basis for the property if it is eventually sold."

If you've decided to sell the inherited home, you'll need to decide a price and terms to sell the property, says William M. Kotis III, president of Kotis Properties, Inc., Greensboro, N.C. "You'll also likely hire a real-estate broker as well as various consultants, including an appraiser, surveyor, real estate lawyer, accountant and environmental consultant."

Kotis says to think carefully about your goals for the property before selling.

"What is it truly worth?" asks Kotis. "A mistake people often make is that a family member says Bob Smith offered mom \$5 million for the property and she turned him down, so it has to be worth more than that. When someone isn't willing to sell a property, a buyer may throw out a ridiculous number in a conversation, but that doesn't mean it is worth that or would sell for that. You have to value property based on deals that have closed or true comps. Are you wanting an income stream? Maybe that means selling the property and buying another one with income. Or are you willing to invest more money in the property to develop it, and do you have the expertise?"

Taxes aren't the only complications a real-estate inheritor has to face. Case in point: If the home still has a mortgage attached to it, it will have to be paid off.

"Some lenders treat the death of a borrower as a trigger for immediate repayment of the loan," says Kraig Kast, managing trustee at Atherton Trust Co., Redwood Shores, Calif. "If when the loan is taken out, there are provisions for survivorship either through a trust or deed, then the loan will remain in effect."

Additionally, the property will need to be insured, since there is a new owner, says Marmor. "And in most cases, there will be assessment of the property for real-estate purposes, and therefore real-estate taxes on the property will probably go up."

Also, "one of the biggest issues any person who inherits property will have to deal with is clearing the property title, which can be a very time-consuming and cumbersome process," says Harrington.

Transference of real-estate property can become exceedingly sticky when more than one beneficiary is named. Unless the will is very clear about the percentage of ownership each beneficiary receives or includes provisions about what will happen if one beneficiary wants to sell the home while the others do not, be prepared for disputes that may arise, says Harrington.

Inheriting a home or other property is an incredibly complex issue with ramifications that can vary from state to state, says Altman. If you're due to inherit real estate, "contact a very knowledgeable tax lawyer, most likely someone well versed in estate tax law."



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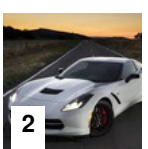
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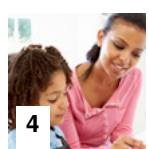
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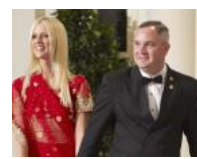


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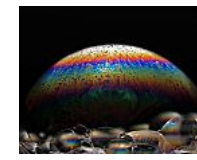


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