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Giving Your Home to Your Children Can Have Tax Consequences

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Many people wonder if it is a good idea to give their home to their children. While it is possible to do this, giving away a house can have major tax consequences, among other results.

When you give anyone property valued at more than \$14,000 in any one year, you have to file a gift tax form. Also, under current law (2014) you can gift a total of \$5.34 million over your lifetime without incurring a gift tax. If your residence is worth less than \$5.34 million, you likely won't have to pay any gift taxes, but you will still have to file a gift tax form.

While you may not have to pay gift taxes on the gift, if your children sell the house right away, they may be facing steep taxes. The reason is that when you give away your property, the tax basis (or the original cost) of the property for the giver becomes the tax basis for the recipient. For example, suppose you bought the house years ago for \$150,000 and it is now worth \$350,000. If you give your house to your children, the tax basis will be \$150,000. If the children sell the house, they will have to pay capital gains taxes on the difference between \$150,000 and the selling price. The only way for your children to avoid the taxes is for them to live in the house for at least two years before selling it. In that case, they can exclude up to \$250,000 (\$500,000 for a couple) of their capital gains from taxes.

Inherited property does not face the same taxes as gifted property. If the children were to inherit the property, the property's tax basis would be "stepped up," which means the basis would be the current value of the property. However, the home will remain in your estate, which may have estate tax consequences.

Beyond the tax consequences, gifting a house to children can affect your eligibility for Medicaid coverage of long-term care. There are other options for giving your house to your children, including putting it in a trust or selling it to them. Before you give away your home, consult your elder law attorney, who can advise you on the best method for passing on your home.

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