

Parents, Are You Costing Your Children Tens of Thousands of Dollars? Avoid This Estate Planning Mistake.

**By: Kareen Kinzli Larsen
Realtor at RE/MAX Alliance**

It happens every year. Grieving children are faced with the recent loss of their elderly parent. They come into our office seeking assistance with selling their parent's home. If the will or probate states the children will receive the proceeds from the real estate sale, two distinctly different scenarios will play out based on the accuracy of their parent's estate planning. I will either inform the children that they will receive the full proceeds of their parent's home with no capital gains tax liability or they will owe tens of thousands of dollars to the IRS in capital gains tax.

Well-meaning parents can make a simple, inadvertent mistake when estate planning. They add their children to the title while they are still alive. It is logical. You want the house to go to your kids, so you add them to the title thinking that the house will automatically transfer to your kids upon your death. Let me show you how costly your perceived kindness can be.

Let's say, back in 2010, during the Great Recession, you added your child, in joint tenancy, to the title of your 3 bedroom, 2 bath ranches in Fort Collins valued at \$250,000. This way 100% of the ownership of the home would transfer to your child at the time of your death without going through probate. What you did not realize is that by doing this, your child has "owned" that asset since the transfer of title in 2010 creating a tax basis, or original value of the asset, of \$250,000. Today, the house is worth \$400,000. If the home was not your child's primary residence, your child has an "investment" that has grown in value by \$150,000. If they sold the house today, they would owe an average of 20% capital gains tax on the profits and would owe the IRS \$30,000.

Parents, the solution is quite simple. Keep the real estate asset in your name only. State in your will that any real estate holdings will go to your children at the time of your death. Using the example above, if the house is in your name only, your child will inherit an asset worth \$400,000 today. Their basis in the property for tax purposes is \$400,000. If they choose to sell the house, they have no profit and would not have to pay any capital gains tax.

Keep in mind, tax and estate law is a complicated subject. These examples have been simplified and assumes the total estate value meets the current estate tax exemption amount of \$11.58 million. Use this as a reminder to talk to your accountant or estate planning attorney for specific guidance as it relates to your individual estate.

