inheriting a house

What are the rules on capital gains when inheriting a house?
When children inherit a home, the Internal Revenue Service determines their basis in the property on the date of the owner's death. The cost basis is not the amount the owner originally paid for the house, but the property's fair-market value on the date of the parent's death.

Cost basis is a tax term for the dollar amount assigned to a property at the time it is acquired, for the purpose of determining gain or loss when it is sold.

For example, one of the three siblings sold his or her share of a property to be divided equally, he or she must pay capital gains tax for whatever profit made over one-third of the new basis.

Other tax consequences include estate taxes. However, the estate must total $675,000 or more for tax year 2001 before tax issues become a concern. The IRS allow residents to pass on property, cash and other assets worth up to a total of $675,000 for tax year 2001 before charging the heirs any taxes. This figure will rise each year for the next several years.

Regarding the transfer of ownership, quit-claim deeds often are used between family members in situations such as this when an heir is buying out the other. All parties must be agreeable to dropping a name from the title. For more information, consult the IRS's Publication 448, "Federal Estate and Gift Taxes." Order by calling 1-800-TAX-FORM.

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