

Sun., Sep. 20, 2009

There are issues figuring out home sale tax

By JOHN CRUDELE

September 20, 2009

Dear John: I'm an 82-year-old widower attempting to sell the house I've lived in for over 50 years. How much tax will I pay on the sale? Can I distribute the sale proceeds to my kids, and will they have to pay tax on the money? R.O.

Dear R.O.: This question has several issues that have to be considered before taking action: income taxes, gift taxes and estate taxes. First, let's discuss the income tax issue if you sold the house.

According to **Monroe Diefendorf, a certified financial planner and investment management analyst in Locust Valley, NY,** you won't have to pay tax on the first \$250,000 gain on the sale of this house.

The amount of tax you will pay depends on the sale price of the house, minus improvements that you can deduct. Diefendorf assumes that you have a fairly small adjusted cost basis on the sale because the house was purchased so long ago.

"But remember, if he bought this residence with his deceased wife, he gets a half-step up in basis for the value of the home at her death," says Diefendorf. Put simply, your wife's half of the house would be valued at what it was worth at the time of her death.

If you still have a taxable gain after all that, you will most likely be taxed at a 15 percent capital gains rate for federal tax purposes, says Diefendorf, plus state taxes. "There is the possibility that, if this is a very large gain, he could also be exposed to the alternative minimum tax at the federal level," Diefendorf says.

Next is the issue of gift taxes. "Any gift tax due would be borne by him, the donor of the gift. The children pay no tax on the gift," he says.

Finally, says Diefendorf, another route could be taken. You could transfer your house at a discount to a Qualified Personal Residence Trust, or QPRT, that will allow you to pass ownership of the house to your heirs but allows you to continue living there for a specified period of time.

There are tax advantages to a QPRT. This year, \$3.5 million gets passed to your heirs tax free. If you don't need the money and your kids don't need the money, you are better off dying with the house in your name.

Send your questions to Dear John, The N.Y. Post, 1211 Ave. of the Americas, N.Y., N.Y., 10036, or john.crudele@nypost.com.