

# Money Matters

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## Skloff Financial Group Question of the Month

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**Q:** We read ‘How a Gift Can Be a Tax Dream or a Tax Nightmare’ Part 1 and Part 2. We also read ‘How To (Legally) Avoid Taxes When Selling Your Home’ Part 1, Part 2 and Part 3. Lastly, we read ‘How Gifting Versus Selling Your Home Can Be a Tax Dream or a Tax Nightmare’ Part 1 and Part 2. We are considering gifting or selling our home to our child and their spouse. Can you give examples of the tax implications of gifting versus selling a home?

### The Problem – How Gifting Versus Selling Your Home Can Be a Tax Dream or a Tax Nightmare

Many people gift or sell their home to their child and child’s spouse without realizing the tax or implications to all parties. When executed correctly, the transaction can be a **tax dream**. When executed incorrectly, it can be a **tax nightmare**.

### The Solution – A Side-by-Side Comparison of Gifting Versus Selling Your Home to Your Child and Child’s Spouse

By examining side-by-side comparisons, you can see how you can pay high, low or no taxes based on the scenario.

### Gifting Your Home Can Generate Tax Detriments to You, Your Child and Their Spouse – A Tax Nightmare

If you and your spouse gift your \$600,000 home (with a \$100,000 costs basis) to your child and their spouse, you also gift them **your** cost basis (or Adjusted Basis), which becomes **their** cost basis (or Adjusted Basis). By gifting you lose your capital gain exclusion you would have realized had you sold your home to your child and child’s spouse. – a **tax nightmare**. Based on when your child and child’s spouse (“They”) sell that home, they will pay: high taxes (see the red section, danger zone, of the table below), low taxes (see the yellow section, safe zone) or no taxes (see the green section, ultra safe zone).

Gifting Your Home To Your Child and Child's Spouse, Then They Sell It			
	1 Year or Less	More Than 1 Year But Less Than 2 Years	2 or More Years
<b>Selling Price</b>	\$ 1,100,000	\$ 1,100,000	\$ 1,100,000
Cost Basis or Adjusted Basis of Gift	\$ 100,000	\$ 100,000	\$ 100,000
Bathroom Renovation Price	\$ -	\$ -	\$ -
Kitchen Renovation Price	\$ -	\$ -	\$ -
Adjusted Basis	\$ 100,000	\$ 100,000	\$ 100,000
Gross Capital Gain	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Capital Gains Exclusion for Couple	\$ 0	\$ -	\$ 500,000
<b>Net Capital Gain</b>	\$ 1,000,000	\$ 1,000,000	\$ 500,000
Income Tax 35%	\$ 350,000	\$ 0	\$ 0
Long Term Capital Gains Tax 20%	\$ -	\$ 200,000	\$ 100,000
Net Investment Income Tax (NIIT) 3.8%	\$ 38,000	\$ 38,000	\$ 19,000
Total Taxes	\$ 388,000	\$ 238,000	\$ 119,000
<b>Proceeds Net of Taxes</b>	\$ 712,000	\$ 862,000	\$ 981,000

### Selling Your Home Can Generate Tax Benefits to You, Your Child and Their Spouse – A Tax Dream

If you and your spouse sell your home for \$600,000 (with a \$100,000 costs basis) to your child and their spouse, and meet the Eligibility Test, your gain is exempt from taxes - a **tax dream**. Based on when your child and child’s spouse (“They”) sell that home, they will pay: high taxes (see the red section, danger zone, of the table below), low taxes (see the yellow section, safe zone) or no taxes (see the green section, ultra safe zone). The last scenario is a **tax dream**.

Selling Your Home To Your Child and Child's Spouse, Then They Sell It			
	1 Year or Less	More Than 1 Year But Less Than 2 Years	2 or More Years
<b>Selling Price</b>	\$ 1,100,000	\$ 1,100,000	\$ 1,100,000
Purchase Price	\$ 600,000	\$ 600,000	\$ 600,000
Bathroom Renovation Price	\$ -	\$ -	\$ -
Kitchen Renovation Price	\$ -	\$ -	\$ -
Adjusted Basis	\$ 600,000	\$ 600,000	\$ 600,000
Gross Capital Gain	\$ 500,000	\$ 500,000	\$ 500,000
Capital Gains Exclusion for Couple	\$ 0	\$ -	\$ 500,000
<b>Net Capital Gain</b>	\$ 500,000	\$ 500,000	\$ 0
Income Tax 35%	\$ 175,000	\$ 0	\$ 0
Long Term Capital Gains Tax 20%	\$ -	\$ 100,000	\$ 0
Net Investment Income Tax (NIIT) 3.8%	\$ 19,000	\$ 19,000	\$ 0
Total Taxes	\$ 194,000	\$ 119,000	\$ 0
<b>Proceeds Net of Taxes</b>	\$ 906,000	\$ 981,000	\$ 1,100,000

### Action Steps

Work closely with your Registered Investment Adviser (RIA) to reduce your taxes, and grow and preserve your wealth.

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