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How Health Savings Accounts Can Supercharge Your Tax Savings

Article Highlights:

- Health Savings Accounts
- Qualifications
- Tax Benefits
- As a Supplemental Retirement Plan
- Establishing and Contributing to an HSA
- Become Ineligible

In the labyrinth of financial planning and tax-saving strategies, Health Savings Accounts (HSAs) emerge as a multifaceted tool that remains underutilized and often misunderstood. An HSA is not just a way to save for medical expenses; it's also a powerful vehicle for retirement savings, offering unique tax advantages. This article delves into who qualifies for an HSA, the tax benefits it offers, and how it can serve as a supplemental retirement plan.

Qualifying for a Health Savings Account - At the heart of HSA eligibility is enrollment in a high-deductible health plan (HDHP). As of the latest guidelines, for tax year 2024, an HDHP is defined as a plan with a minimum deductible of $1,600 for an individual or $3,200 for family coverage. The plan must also have a maximum limit on the out-of-pocket medical expenses that you must pay for covered expenses, which for 2024 is $8,050 for self only coverage and $16,100 for family coverage. But having an HDHP is just the starting point. To qualify for an HSA, individuals must meet the following criteria:

- *Coverage Under an HDHP*: You must be covered under an HDHP on the first day of the month.
- *No Other Health Coverage*: You cannot be covered by any other health plan that is not an HDHP, with certain exceptions for specific types of insurance like dental, vision, and long-term care.
- *No Medicare Benefits*: You cannot be enrolled in Medicare. This rule applies to periods of retroactive Medicare coverage. So, if you delay applying for Medicare and later your enrollment is backdated, any contributions to your HSA made during the period of retroactive coverage are considered excess, are not tax deductible and subject to penalty, if not withdrawn from the account.
- *Not a Dependent*: You cannot be claimed as a dependent on someone else's tax return.
- *Spouse's Own Plan*: Joint HSAs aren't allowed; each spouse who is eligible and wants an HSA must open a separate HSA.

These criteria ensure that HSAs are accessible to those who are most likely to face high out-of-pocket medical expenses due to the nature of their health insurance plan, providing a tax-advantaged way to save for these costs.

It should also be noted that unlike IRAs, 401(k)s and other retirement plans, it is not necessary to have earned income to be eligible for an HSA.

Tax Benefits of Health Savings Accounts - HSAs offer an unparalleled triple tax advantage that sets them apart from other savings and investment accounts:

- *Tax-Deductible Contributions*: Contributions to an HSA are tax-deductible, reducing your taxable income for the year. This deduction applies whether you itemize deductions or take the standard deduction. Rather than being a tax deduction, HSA contributions made by your employer are just not included in your income.

- *Tax-Free Growth*: The funds in an HSA grow tax-free, meaning you don't pay taxes on interest, dividends, or capital gains within the account.

- *Tax-Free Withdrawals for Qualified Medical Expenses*: Withdrawals from an HSA for qualified medical expenses are tax-free. This includes a wide range of costs, from doctor's visits and prescriptions to dental and vision care, and even some over-the-counter medicine, whether or not prescribed.

The combination of these benefits makes HSAs a powerful tool for managing healthcare costs both now and in the future.

HSAs as a Supplemental Retirement Plan - While HSAs are designed with healthcare savings in mind, their structure makes them an excellent supplement to traditional retirement accounts like IRAs and 401(k)s. Here's how:

- *No Required Minimum Distributions (RMDs)*: Unlike traditional retirement accounts, HSAs do not require you to start taking distributions at a certain age. This allows your account to continue growing tax-free indefinitely.

- *Flexibility for Non-Medical Expenses After Age 65*: Once you reach age 65, you can make withdrawals for non-medical expenses without facing the 20% penalty that would apply to nonqualified distributions at a younger age, though these withdrawals will be taxed as income. This feature provides flexibility in how you use your HSA funds in retirement.

- *Continued Tax-Free Withdrawals for Medical Expenses*: Regardless of age, withdrawals for qualified medical expenses remain tax-free. Considering healthcare costs often increase with age, having an HSA in retirement can provide significant financial relief.

To maximize the benefits of an HSA as a retirement tool, consider paying current medical expenses out-of-pocket if possible, allowing your HSA funds to grow over time. This strategy leverages the tax-free growth of the account, potentially resulting in a substantial nest egg for healthcare costs in retirement or additional income for other expenses.

Establishing and Contributing to an HSA - Opening an HSA is straightforward. Many financial institutions offer HSA accounts, and the process is like opening a checking or savings account. An individual can acquire a Health Savings Account (HSA) through various sources, including:

- *Employers*: Many employers offer HSAs as part of their benefits package, especially if they provide high-deductible health plans (HDHPs) to their employees. Enrolling through an employer might also come with the benefit of direct contributions from the employer to the HSA.

- *Banks and Financial Institutions*: Many banks, credit unions, and other financial institutions offer HSA accounts. Individuals can open an HSA directly with these institutions, like opening a checking or savings account.

- *Insurance Companies*: Some insurance companies that offer HDHPs also offer HSAs or have partnered with financial institutions to offer HSAs to their policyholders.

- *HSA Administrators*: There are companies that specialize in administering HSAs.

These administrators often provide additional services, such as investment options for HSA funds, online account management, and educational resources about using HSAs effectively.

When choosing where to open an HSA, it's important to consider factors such as fees, investment options, ease of access to funds (e.g., through debit cards or checks), and customer service.

Once established, you can make contributions up to the annual limit, which for 2024 is $4,150 for individual coverage and $8,300 for family coverage. Individuals aged 55 and older can make an additional catch-up contribution of $1,000.

What Happens If I Later Become Ineligible - If you have an HSA and then later become ineligible to contribute to it—perhaps because you've enrolled in Medicare, are no longer covered by a high-deductible health plan (HDHP), or for another reason—several key points come into play regarding the status and use of your HSA:

- *Contributions Stop*: Once you are no longer eligible, you cannot make new contributions to the HSA. For example, enrollment in Medicare makes you ineligible to contribute further to an HSA. However, the specific timing of when you must stop contributing can vary based on the reason for ineligibility. If you enroll in Medicare, contributions should stop the month you are enrolled.

- *Funds Remain Available*: The funds that are already in your HSA remain available for use. You can continue to use these funds tax-free for qualified medical expenses at any time. This includes expenses like copays, deductibles, and other medical expenses not covered by insurance, but not insurance premiums.

- *Investment Growth*: The funds in your HSA can continue to grow tax-free. Many HSAs offer investment options, allowing your account balance to potentially increase through investment earnings.

- *Use for Non-Medical Expenses*: As noted previously, if you are 65 or older, you can withdraw funds from your HSA for non-medical expenses without facing the 20% penalty, though such withdrawals will be subject to income tax. This makes the HSA function similarly to a traditional IRA for individuals 65 and older, with the added benefit of tax-free withdrawals for medical expenses.

- *No Required Minimum Distributions (RMDs)*: Unlike traditional IRAs and 401(k)s, HSAs do not have required minimum distributions (RMDs), so you can leave the funds in your account to grow tax-free for as long as you want.

- *After Death***:** Upon the death of the HSA owner, the account can be transferred to a surviving spouse tax-free and used as their own HSA. If the beneficiary is not the spouse, but is the beneficiary's estate, the account value is included in the deceased's final income tax return, subject to taxes. If any other person is the beneficiary, the fair market value of the HSA becomes taxable to the beneficiary in the year of the HSA owner's death.

In summary, while you can no longer contribute to an HSA after losing eligibility, the account remains a valuable tool for managing healthcare expenses and can even serve as a supplemental retirement account, especially given its tax advantages.

Health Savings Accounts stand out as a versatile financial tool that can significantly impact your tax planning and retirement preparedness. By understanding who qualifies for an HSA, leveraging its tax benefits, and recognizing its potential as a supplemental retirement plan, individuals can make informed decisions that enhance their financial well-being.

Whether you're navigating high-deductible health plans or seeking additional avenues for tax-efficient savings, an HSA may be the key to unlocking substantial long-term benefits.

Contact this office for additional information and how an HSA might benefit your circumstances.

Navigating the Complex World of Your Child's Tax Return

Article Highlights:

- Why Kiddie Tax
- Unearned Income
- Exceptions
- Understanding Kiddie Tax Rules
- Strategies for Children with Earned Income
- Parental Election to Include Child’s Unearned Income
- Strategies to Avoid the Kiddie Tax

In an effort to prevent high-income parents from exploiting tax benefits by shifting their investment income to their children, who typically fall into lower tax brackets, the U.S. Congress introduced the "Kiddie Tax" in 1986. While not officially termed as such in the tax code, the Kiddie Tax effectively applies higher tax rates to the unearned income of certain children. This article delves into the intricacies of the Kiddie Tax, including who it affects, the rules governing it, and strategies for managing its impact.

The Kiddie Tax applies to the unearned income of children under the age of 19, or under 24 for full-time students, provided they are not self-supporting. Unearned income includes, but is not limited to, dividends, interest, and capital gains. It's important to note that if a child is married or neither parent is alive at the end of the tax year, the Kiddie Tax rules do not apply, and the child's income is taxed at their own rate.

Exceptions to the Rule - There are specific exceptions to the Kiddie Tax that can exempt a child's income from being taxed at the parent's rate. For instance, if a child's unearned income is less than a certain threshold, which for 2024 is $1,300, it is not subject to the Kiddie Tax. Additionally, earned income, which is income from employment, is taxed at the child's rate and benefits from the standard deduction, significantly reducing the tax liability for working children.

Understanding Kiddie Tax Rules - For 2024, the first $1,300 of a child's unearned income is tax-free, and the next $1,300 is taxed at the child's rate. However, any unearned income over $2,600 is taxed at the higher of the child's tax rate or the parents' rate, which can be as high as 37%. These thresholds are annually adjusted for inflation.

Strategies for Children with Earned Income - Children with earned income (income from working) have the opportunity to leverage the standard deduction to offset their taxable income. For 2024, the standard deduction for a single individual is $14,600, allowing a child to earn up to this amount tax-free. Furthermore, children can contribute to a traditional IRA, up to the lesser of their earned income or $7,000 for 2024, potentially increasing their tax-free earnings to $21,600. Children may be reluctant to contribute their hard-earned income to an IRA, in which case the parents or grandparents may consider gifting the child the IRA contribution to encourage savings for retirement. Also, if an IRA contribution is made, consider a Roth IRA which provides tax free income at retirement. The downside of a Roth is that the contribution isn’t tax deductible, so a child’s tax-free earnings would be limited to the standard deduction amount. Even so, the tax the child would pay on the nondeductible contribution would likely only be at the 10% or 12% rate, which is probably lower than what the child’s tax rate will be when they retire.

Parental Election to Include Child’s Unearned Income - In some cases, it may be beneficial for parents to include their child's interest and dividend income on their own tax return, rather than having the child file a separate return. This election is only available if the child's income consists solely of interest and dividends, and the parents meet certain conditions, such as filing a joint return. In these situations, the child will not be required to file their own return, but careful consideration should be given to which method produces the least tax on the unearned income.

Strategies to Avoid the Kiddie Tax - There are several strategies parents and guardians

can employ to minimize the impact of the Kiddie Tax. One approach is to invest in growth stocks or mutual funds that do not pay dividends, thereby deferring the recognition of income until the child is no longer subject to the Kiddie Tax. Another strategy is to contribute to a 529 college savings plan, which offers tax-free growth and withdrawals for qualified education expenses, effectively bypassing the Kiddie Tax.

The Kiddie Tax represents a significant consideration for families planning their investment and tax strategies. Understanding the rules and exceptions of the Kiddie Tax is crucial for minimizing its impact and maximizing the financial well-being of both parents and children. By employing strategic planning and taking advantage of available tax benefits, families can navigate the complexities of the Kiddie Tax and ensure their investment income is taxed in the most advantageous manner possible.

Contact this office for assistance in dealing with and planning for the Kiddie Tax.

Gift and Estate Tax Primer

Article Highlights:

- Exclusions from Gift and Estate Taxes
- Annual Gift Tax Exclusion
- Gifts for Medical Expenses and Tuition
- Lifetime Exclusion from Gift and Estate Taxes
- Spousal Exclusion Portability
- Qualified Tuition Programs
- Basis of Gifts

The tax code places limits on the amounts that individuals can gift to others (as money or property) without paying taxes. This is meant to keep an individual from using gifts to avoid the estate tax that is imposed upon the assets owned by the individual at their death. This can be a significant issue for family-operated businesses when the business owner dies; such businesses often must be sold to pay the resulting estate taxes. This is, in large part, why high-net-worth individuals invest in estate planning.

Exclusions – Current tax law provides both an annual gift tax exclusion and a lifetime exclusion from the gift and estate taxes. Because the two taxes are linked, gifts that exceed the annual gift tax exclusion reduce the amount that the giver can later exclude for estate tax purposes. The term exclusion means that the amount specified by law is exempt from the gift or estate tax.

Annual Gift Tax Exclusion – This inflation-adjusted exclusion is $18,000 for 2024 (up from $17,000 for 2023). Thus, an individual can give $18,000 each to an unlimited number of other individuals (not necessarily relatives) without any tax ramifications. When a gift exceeds the $18,000 limit, the individual must file a Form 709 Gift Tax Return. However, unlimited amounts may be transferred between spouses without the need to file such a return – unless the spouse is not a U.S. citizen. Gifts to noncitizen spouses are eligible for an annual gift tax exclusion of up to $185,000 in 2024 (up from $175,000 in 2023).

- **Example:** Jack has four adult children. In 2024, he can give each child $18,000 ($72,000 total) without reducing his lifetime exclusion or having to file a gift tax return. Jack's spouse can also give $18,000 to each child without reducing either spouse's lifetime exclusion. If each child is married, then Jack and his wife can each also give $18,000 to each of the children's spouses (raising the total to $72,000 given to each couple) without reducing their lifetime gift and estate tax exclusions. The gift recipients (termed "donees") are not required to report the gifts as taxable income and do not even have to declare that they received the gifts on their income tax returns.

If any individual gift exceeds the annual gift tax exclusion, the giver must file a Form 709 Gift Tax Return. However, the giver pays no tax until the total amount of gifts more than the annual exclusion exceeds the amount of the lifetime exclusion. The government uses Form 709 to keep track of how much of the lifetime exclusion an individual has used prior to that person's death. If the individual exceeds the lifetime exclusion, then the excess is taxed; the

current rate is 40%.

All gifts to the same person during a calendar year count toward the annual exclusion. Thus, in the example above, if Jack gave one of his children a check for $18,000 on January 1, any other gifts that Jack makes to that child during the year, including birthday or Christmas gifts, would mean that Jack would have to file a Form 709.

Gifts for Medical Expenses and Tuition – An often-overlooked provision of the tax code allows for nontaxable gifts in addition to the annual gift tax exclusion; these gifts must pay for medical or education expenses. Such gifts can be significant; they include.

- tuition payments made directly to an educational institution (whether a college or a private primary or secondary school) on the donee's behalf – but not payments for books or room and board – and
- payments made directly to any person or entity who provides medical care for the donee.

In both cases, it is critical that the payments be made directly to the educational institution or health care provider. Reimbursements to the donee do not qualify.

Lifetime Exclusion from Gift and Estate Taxes – The gift and estate taxes have been the subject of considerable political bickering over the past few years. Some want to abolish this tax, but there has not been sufficient support in Congress to do that; instead, the lifetime exclusion amount was nearly doubled as of 2018 and has been increased annually due to an inflation-adjustment requirement in the law. In 2024, the lifetime exclusion is $13.61 million per person. By comparison, in 2017 (prior to the tax reform that increased the exemption), the lifetime exclusion was $5.49 million. The lifetime estate tax exclusion and the gift tax exclusion have not always been linked; for example, in 2006, the estate tax exclusion was $2 million, and the gift tax exclusion was $1 million. The tax rates for amounts beyond the exclusion limit have varied from a high of 46% in 2006 to a low of 0% in 2010. The 0% rate only lasted for one year before jumping to 35% for a couple of years and then settling at the current rate of 40%.

This history is important because the exclusions can change significantly at Congress's whim – particularly based on the party that holds the majority. In fact, absent Congressional action, the exclusion amount is scheduled to return to the 2017 amount, adjusted for inflation, in 2026, estimated to be just over $6 million per person.

Spousal Exclusion Portability – When one member of a married couple passes away, the surviving member receives an unlimited estate tax deduction; thus, no estate tax is levied in this case. However, as a result, the value of the surviving spouse's estate doubles, and there is no benefit from the deceased spouse's lifetime unified tax exclusion. For this reason, the tax code permits the executor of the deceased spouse's estate (often, the surviving spouse) to transfer any of the deceased person's unused exclusion to the surviving spouse. Unfortunately, this requires filing a Form 706 Estate Tax Return for the deceased spouse, even if such a return would not otherwise be required. This form is complicated and expensive to prepare, as it requires an inventory with valuations of all the decedent's assets. As a result, many executors of relatively small estates skip this step. As discussed earlier, the lifetime exclusion can change at the whim of Congress, so failing to take advantage of this exclusion's portability could have significant tax ramifications.

Qualified Tuition Programs – Any discussion of the gift and estate taxes needs to include a mention of qualified tuition programs (commonly referred to as Sec 529 plans, after the tax code section that authorizes them). These plans are funded with nondeductible contributions, but they provide tax-free accumulation if the funds are used for a child's postsecondary education (as well as, in many states, up to $10,000 of primary or secondary tuition per year). Contributions to these plans, like any other gift, are subject to the annual gift tax exclusion. Of course, these plans offer tax-free accumulation when distributions are made for eligible education expenses, so it is best to contribute funds as soon as possible.

Under a special provision of the tax code, in a given year, an individual can contribute up to 5 times the annual gift tax exclusion amount to a qualified tuition account and can then treat the contribution as having been made ratably over a five-year period that starts in the calendar year of the contribution. However, the donor then cannot make any further contributions

during that five-year period.

Basis of Gifts – Basis is the term for the value (usually cost) of an asset; it is used to determine the profit when an asset is sold. The basis of a gift is the same for the donee as it was for the donor, but this amount is not used for gift tax purposes; instead, the fair market value as of the date the gift is made is used.

- **Example:** In 2024, Pete gifts shares of stock to his daughter. Pete purchased the shares for $6,000 (his basis), and they were worth $25,000 in fair market value when he gifted them to his daughter. Their value at the time of the gift is used to determine whether the gift exceeds the annual gift tax exclusion. Because the gift's value ($25,000) is greater than the $18,000 exclusion, Pete will have to file a Form 709 Gift Tax Return to report the gift; he also must reduce his lifetime exclusion by $7,000 ($25,000 – $18,000). His daughter's basis is equal to the asset's original value ($6,000); when she sells the shares, her taxable gain will be the difference between the sale price and $6,000. Thus, Pete has effectively transferred the tax on the stock's appreciated value to his daughter.
- If Pete's daughter instead inherited the shares upon Pete's death, her basis would be the fair market value of the stock at that time (let's say it is $28,000) and if she sold the shares for $28,000, she would have no taxable gain.

This is only an overview of the tax law regarding gifts and estates; please call this office for further details or to get advice for your specific situation.

Maximizing Benefits and Navigating Pitfalls: Understanding the Tax Implications of Inheriting or Receiving a Home as a Gift

Article Highlights:

- Gifting Considerations
  - Gift Tax Return
  - Gift Basis
  - Holding Period
  - Home Sale Exclusion
  - Capital Gains
  - Special Considerations
- Inheritance
  - Inherited Basis
  - Depreciation Reset
- Comparison

A frequent question, and a situation where taxpayers often make tax mistakes, is whether it is better to receive a home as a gift or as an inheritance. It is generally more advantageous tax-wise to inherit a home rather than to receive it as a gift before the owner's death. This article will explore the various tax aspects related to gifting a home, including gift tax implications, basis considerations for the recipient, and potential capital gains tax implications. Here are the key points that highlight why inheriting a home is often the better option.

RECEIVED AS A GIFT

First let's explore the tax ramifications of receiving a home as a gift. Gifting a home to another person is a generous act that can have significant implications for both the giver (the donor) and the recipient (the donee), especially when it comes to taxes. Most gifts of this nature are between parents and children. Understanding the tax consequences of such a gift is crucial for anyone considering this option.

Gift Tax Implications - When a homeowner decides to gift their home to another person (whether or not related), the first tax consideration is the federal gift tax. The Internal Revenue Service (IRS) requires individuals to file a gift tax return if they give a gift exceeding the annual exclusion amount, which is $18,000 per recipient for 2024. This amount is inflation

adjusted annually. Where gifts exceed the annual exclusion amount, and a home is very likely to exceed this amount, it will necessitate the filing of a Form 709 gift tax return.

It's worth mentioning that while a gift tax return may be required, actual gift tax may not be due thanks to the lifetime gift and estate tax exemption. For 2024, this exemption is $13.61 million per individual, meaning a person can gift up to this amount over their lifetime without incurring gift tax. The value of the home will count against this lifetime exemption.

Note: The lifetime exclusion was increased by the Tax Cuts and Jobs Act (TCJA) of 2017, which without Congressional intervention will expire after 2025, and the exclusion will get cut by about half.

Basis Considerations for the Recipient – For tax purposes basis is the amount you subtract from the sales price (net of sales expenses) to determine the taxable profit. The tax basis of the gifted property is a critical concept for the recipient to understand. The basis of the property in the hands of the recipient is the same as it was in the hands of the donor. This is known as "carryover" or "transferred" basis.

- For example, if a parent purchases a home for $200,000 and later gifts it to their child when its fair market value (FMV) is $500,000, the child's basis in the home would still be $200,000, not the FMV at the time of the gift. If during the parent's time of ownership, the parent had made improvements to the home of $50,000, the parent's "adjusted basis" at the time of the gift would be $250,000, and that would become the starting basis for the child.

If a property's fair market value (FMV) at the date of the gift is lower than the donor's adjusted basis, then the property's basis for determining a loss is its FMV on that date.

This carryover basis can have significant implications if the recipient decides to sell the home. The capital gains tax will be calculated based on the difference between the sale price and the recipient's basis. If the home has appreciated significantly since it was originally purchased by the donor, the recipient could face a substantial capital gains tax bill upon sale.

Home Sale Exclusion – Homeowners who sell their homes may qualify for a $250,000 ($500,000 for married couples if both qualify) home gain exclusion if they owned and used the residence for 2 of the prior 5 years counting back from the sale date. However, when a home is gifted that gain qualification does not automatically pass on to the gift recipient. To qualify for the exclusion the recipient would have to first meet the 2 of the prior 5 years qualifications. Thus, where the donor qualifies for home gain exclusion it may be best taxwise for the donor to sell the home, taking the gain exclusion and gift the cash proceeds net of any tax liability to the donee.

Of course, there may be other issues that influence that decision such as the home being the family home that they want to remain in the family.

Capital Gains Tax Implications - The capital gains tax implications for the recipient of a gifted home are directly tied to the basis of the property and the holding period of the donor. If the recipient sells the home, they will owe capital gains tax on the difference between the sale price and their basis in the home. Given the carryover basis rule, this could result in a significant tax liability if the property has appreciated since the donor originally purchased it. Capital gains are taxed at a more favorable rate if the property has been held for over a year. For gifts the holding period is the sum of the time held by the donor and the donee, sometimes referred to as a tack-on holding period.

Special Considerations - In some cases, a homeowner may transfer the title of their home but retain the right to live in it for their lifetime, establishing a de facto life estate. In such situations, the home's value is included in the decedent's estate upon their death, and the beneficiary's basis would be the FMV at the date of the decedent's death, potentially offering a step-up in basis and significantly reducing capital gains tax implications, i.e., treated as if they inherited the property.

AS AN INHERITANCE

There are significant differences between receiving a property as a gift or by inheritance.

Basis Adjustment - When you inherit a home, your basis in the property is generally "stepped up" to the fair market value (FMV) of the property at the date of the decedent's death. However, occasionally this could result in a “step-down” in basis where a property has declined in value. Nevertheless, this day and age, most real estate would have appreciated in value over the time the decedent owned it, and the increase in value will not be subject to capital gains tax if the property is sold shortly after inheriting it.

- For example, if a home was purchased for $100,000 and is worth $300,000 at the time of the owner's death, the inheritor's basis would be $300,000. If the inheritor sells the home for $300,000, there would be no capital gains tax on the sale.

In addition, the holding period for inherited property is always considered long term, meaning inherited property gain will always be taxed at the more favorable long-term capital gains rates.

Note: The Biden administration’s 2025–2026 budget proposal would curtail the basis step-up for higher income taxpayers.

In contrast, if a property is received as a gift before the owner's death, the recipient's basis in the property is the same as the giver's basis. This means there is no step-up in basis, and the recipient could face significant capital gains tax if the property has appreciated in value, and they decide to sell it.

- Using the same facts as in the example just above, if the home was gifted and had a basis of $100,000, and the recipient later sells the home for $300,000, they would potentially face capital gains tax on the $200,000 increase in value.

Depreciation Reset - For inherited property that has been used for business or rental purposes, the accumulated depreciation is reset, allowing the new owner to start depreciation afresh on the inherited portion and since the inherited basis is FMV at the date of the decedent’s death, the prior depreciation is disregarded. This is not the case with gifted property, where the recipient takes over the giver's depreciation schedule.

Given these points, while each situation is unique and other factors might influence the decision, from a tax perspective, inheriting a property is often more beneficial than receiving it as a gift. However, it's important to consider the overall estate planning strategy and potential non-tax implications.

Please contact this office for developing a strategy that is suitable for your specific circumstances.

Thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time.

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