

So You've Inherited Some Property....

Inheriting a lump sum of cash is a relatively simple process. Inheriting a noncash asset, though, like a vacation home or a stock portfolio, can present a whole different set of issues. If you're not careful about handling your newly inherited property, you could find yourself facing a surprise tax bill, not to mention confronting some difficult family decisions.

DETERMINE YOUR COST BASIS

Any time you inherit an asset, the first question you should ask is "what is my cost basis?" After the death of an individual, any property included in their estate should be valued as of the date of death. This value is used for estate tax purposes, but it also becomes the cost basis of the asset in the hands of the beneficiary.

When it comes to things that are valued on a daily basis, such as publicly traded stock, bonds or mutual funds, finding that value can be easy. For other

assets, though, this can be much more complicated.

With a home, the easiest way is to ask local real estate agents for an estimate. If the home was recently reassessed for property taxes, you may be able to rely on that value. For other hard-to-value assets, such as artwork, classic cars or rare collections, the only option may be a formal appraisal. This can be expensive, but having the certainty of an expert's opinion may be well worth the cost.

SHOULD YOU KEEP IT OR SELL IT?

Whether to keep or sell an inherited asset can be an emotional decision as well as a financial one. If this is the home you grew up in or your parent's old sports car, you may find the ongoing costs of insuring or maintaining the property is more than you can afford, but what would your parent say if they knew you sold it?

In those cases, it might be best to have a conversation about these kinds of assets before you inherit them. If it's clear ►

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someone intends to leave something to you, let them know about your concerns. They may give their blessing to sell it when the time comes, or may even set aside additional assets to cover associated costs. Having this conversation early on, while the current owner is best able to help with the planning, can also alleviate other potential family conflicts.

As with any asset, tax considerations upon a sale can't be ignored. Remember that your cost basis for a noncash asset will be its market value upon the owner's death. Any future appreciation will incur taxes for you upon its sale. In most cases, selling these assets will result in a capital gain. Some assets, such as collectibles or precious metals, can be subject to a higher tax rate than traditional investments, however. One tax advantage to inherited property: the asset is automatically considered a "long-term" asset, regardless of how long it's owned by you or the decedent.

If you're inheriting a house, other concerns may arise. Is there still a mortgage or insurance coverage that needs to be paid? Someone who inherits real estate generally inherits these responsibilities as well. Perhaps the decedent's estate plan may provide funds to pay off the debt, but both the bank and the insurance carrier need to be made aware of any ownership change.

DON'T FORGET PROBATE

If you plan to sell inherited assets, there can be another holdup as well: probate. Most tangible assets end up going through the probate process. If the property was owned in the deceased person's name alone, the court will likely want to review everything before you can take ownership of it.

Probate can be an added headache during an already difficult time. You may have to go to court several times before any inheritance that goes through probate becomes legally yours. If it's a home that's going through probate, you can conceivably sell the property before the process is complete, but you'll need court approval to do so. If the property is located out-of-state, you may have to go through ancillary probate in that state and may even need to hire a separate attorney licensed to practice there who can represent the estate.

As with most of these issues, the best approach is to plan as far in advance as possible. Having a living trust or last will can help expedite or possibly avoid the probate process for assets with named beneficiaries.

If you've recently inherited a sizable property or anticipate doing so sometime in the future, give your Baird Financial Advisor a call to help avoid unnecessary and often unpleasant surprises.

Please reach out if you or anyone you know would benefit from discussing this topic further.