What Should I Do When I Inherit a House?

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Inheriting a home can stir up a mix of emotions: grief for the loss of a loved one, gratitude for the inheritance, and an overwhelming sense of responsibility. Not only can it bring an emotional reckoning, but real estate can come with a substantial commitment: maintenance, taxes, insurance, and possibly even a mortgage. While it may feel like you're juggling a bunch of things at once, try to take it one step at a time. The first step when you receive an inheritance is deciding what to do with the home.

What Are My Options?

Sell The Home

It's natural to feel emotionally attached to an inherited property, especially if it's a place that holds your fondest memories. Most of the time, you're inheriting a house that carries sentimental value, such as your childhood home, your grandparent's house, or the family cottage. While the thought of parting with a home that your loved one left you can be heartbreaking, try your best to remove emotion from the decision, as another property can drastically impact your personal finances.

If you don't plan to move into the home and/or the financial commitment is unfeasible, deciding to sell can be a wise decision. In many cases, selling is often advised, especially when there are several beneficiaries involved. Choosing to sell and split the proceeds is much simpler than trying to co-own the home. Keep in mind that throughout the selling process, you'll still be responsible for covering ongoing expenses like insurance, utilities, and if applicable, mortgage payments.

Tax implications: When you sell the property, you might have to deal with capital gains tax. However, the bright side is that inherited real estate receives a step-up in basis. This means that the property's value for tax purposes is adjusted to its Fair Market Value (FMV) at the time of the original owner's passing, not what they initially paid for it. In some cases, the cost basis may be adjusted to the FMV on an alternative valuation date. This alternative date is generally six months after the date of death. Receiving a step-up in basis can help you minimize or even eliminate your capital gains tax when selling the house.

To make sure the property's value is adjusted correctly, it's a good idea to get a home appraisal as soon as possible. Even if you're unsure about selling, getting an appraisal quickly after receiving the inheritance ensures the value is adjusted correctly for tax purposes. Waiting may result in the IRS undervaluing the home, resulting in higher taxes upon sale. If the government raises questions about the home's value, your appraisal can provide a strong defense on the property's true worth.

If you decide to sell, it's a good idea to do it sooner rather than later. It can help close out an estate faster, which can relieve some stress during an already challenging time. Moreover, the sooner you sell, the faster you can incorporate the proceeds into your portfolio. This newfound money can be put toward investments that more closely align with your financial plan.

Move In

If you can't bear selling the house and can afford to keep it, making the home your primary residence or vacation home could be a great decision. However, this choice comes with the full financial and personal responsibility of homeownership. You'll be responsible for the property taxes, home insurance, homeowner association fees, and if applicable, mortgage payments. If the property has a mortgage, you'll need to assess whether you want to transfer it to yourself or refinance for different loan terms.

Making this decision can be simple when you're the only beneficiary but can become infinitely more complex when multiple people are involved. Even if everyone agrees to keep the home, other issues can arise.

Imagine that four siblings inherit the childhood home and decide to keep it in the family, but one sibling wants to move into the house. While moving in can be a great benefit to one sibling, it can raise issues with the others. This may lead to discussions, and potential disagreements, on how to share the home amongst each other. The sibling that wants to move in may have to buy out the other beneficiaries, or potentially pay rent to their siblings to make sure the inheritance is shared equally.

Rent It Out

If you're not interested in moving in but don't want to sell, you could rent out the home. However, this means accepting the part-time job of being a landlord. While it comes with passive income and tax advantages, it also comes with major responsibilities. Take a look at our rental property blog to understand the commitment this decision entails.

Even if you're up for the task, choosing to rent out the home when multiple beneficiaries are involved can easily become a recipe for disaster. You're signing yourself up to be business partners. While you've got more people to help handle the responsibilities and the costs, you've also got to figure out how to work together and make collaborative decisions. Differing opinions on matters such as rental terms, property management, and maintenance may lead to conflicts.

The Bottom Line

Receiving an inheritance can be an emotional roller coaster. The best game plan is to strategize what to do with the inheritance before you actually receive it. Making these decisions earlier and openly communicating with family members and other beneficiaries can help avoid any future disputes.

Whether you're thinking about selling the home, moving in yourself, or renting it out, every choice has its own set of advantages, challenges, and responsibilities. While you're assessing your options, weigh the financial commitment involved and how your decision aligns with your financial goals.