

INHERITED HOMES GUIDE



1. Can you sell the inherited home?	4
a. Determining legal sale executors	4
b. Going through probate	4
c. Is there money owed or multiple mortgages on home	5
2. Should you sell an inherited home?	6
a. Sell vs Rent	6
b. Tax implications	6
i. Sale tax exclusion	.
ii. Stepped up basis	.
3. You decided to sell, now what?	7
a. Sale Preparation	7
i. Should you sell the home "As Is"	
ii. Should you fix up the home before selling	
iii. Previous owner's personal effects	
iv. Keeping up with home during the selling process	
v. Choosing a real estate agent	
b. Pricing and Negotiation	11
i. Set a reasonable asking price	
ii. Don't set the price too high	
iii. Don't set the price too low	
iv. Avoid making concessions	
v. Think first before jumping at an offer	
c. Sale Procedures	12
i. Conduct your research	
ii. Property inspection	
iii. Settle conflicts	
iv. Hire a credible real estate agent	
d. After the Sale	13
i. Taxes on the Sale	
ii. Reporting sale proceeds	
4. Final Tips When Inheriting a Home	14

Selling an inherited home can have a strong impact on your finances, primarily due to federal tax implications. Repairs, regular or monthly payables (e.g. utility bills), lawyer fees, and real estate agent commission are additional expenditures that also add up. This guide will help you through the entire inherited home sale procedure with tips you can utilize for hiring an agent and a lawyer, to ensure a smooth transaction or at minimum the path with the least resistance.

Can you sell the inherited home?



Determining legal sale executors

A huge aspect of the sale of an inherited property is determining the people authorized to help in the disposal. The deceased may appoint a trusted real estate firm or an aide who has the power to distribute the assets. The trustee is the one authorized if the inherited property is in a Trust. If their

heirs are siblings, one of them can execute the sale of assets.

The executor holds the legal responsibility to perform all transactions and matters concerning the property if it is in a Will. It's their role to distribute the assets to heirs and even manage the sale of the property.

Going through probate

You can only sell the property after the estate has gone through probate process. Probate is a legal process in which the estate is settled as per the previous owners Will and Testament. All assets in his or her name at the time of death are subject to go through probate. Each state has a different probate process. It is advisable to know more details about the probate process in the inherited property's location.

The State of California requires an authorized executor if there is a Will. The executor begins the process by filing the Will with a Petition for Probate attached. These documents must be filed at the probate court in the county where the deceased person resided. Interested parties should then receive formal notices during the process.

Probate process in California is executed under the Independent Administration of Estates Act. This Act gives the executor full power over several major inheritance issues (i.e., selling the property, approving or rejecting without obtaining permission from the court).

During the probate, it's the executor's job to keep all assets maintained and



safe. For example, a house must be insured and maintained; heirlooms must be safeguarded from theft or damage. The executor is also responsible for filing tax returns for the deceased person and for the estate.

The California probate court also gives creditors up to four months to file a claim. If no claims are received, the executor takes on the responsibility of settling the payables. In cases of lack of funds to pay these claims, the estate assets serve as the currency. Once all bills have been settled, the executor seeks the court's assistance in closing the estate and then distributes the assets to the heir/s afterward.

In cases where an executor is not available to do the job, a family member must step forward and ask the court to grant him/her the right and be formally appointed as the legal administrator.

Is there money owed or multiple mortgages on home?

Selling the inherited property becomes a bit more complicated when there is money owed. The previous owner may have unpaid mortgage or mortgages, tax liens, and/or judgments.

Mortgage is the money owed from a creditor used to purchase the property. In some cases, the previous owner has not fully paid the mortgage before his/her death. This can be passed on to the heir/s. To settle this, the heir/s or the authorized representative need to track down the creditor and pay the money owed in full.

It is also possible to deal with multiple mortgages if the previous owner used more than one financing to purchase the property. Just the same, the other 'junior' mortgages should be settled as in the first mortgage.

Judgments pertain to the unpaid bills incurred before death or fines imposed on the deceased in case they lost a suit in court. Tax liens on the other hand, refer to the previous owner's unpaid real estate or income taxes.

The total money owed needs to be paid out of the total sales of the property. However, in some cases, the money owed on mortgage, taxes, judgments, and/or liens exceed the amount of the property itself, which often becomes the problem.

Life insurance can help pay off some of the owed amount. This may or may not be enough. The mortgage can be negotiated with the lender if the loan is too high. Otherwise, full payment must be settled. An authorized representative or an executor can track down the creditors or necessary personnel to negotiate the payment for any or all of these to reduce the price. This would be known as a Short Sale.

Should you sell an inherited home?

Sale vs Rent

There are two ways in which you can benefit financially from the property you inherited. Either sell it or rent it out. Since you are doing business, it is normal for you to go with the option that can generate the highest profit. So, the question is: should you just sell it or rent it?

Most people find sentimental reasons to not sell the house and rent it out instead. This is a good choice if you wish to earn consistent income without losing sight of the beloved one's memory. The monthly rent increases the income for the family, and when the time comes that you decide to sell it, the market value could possibly be higher.

There are cons to this though, such as refinancing the property, money spent on repairs, high property taxes on the new stepped-up tax basis (current market value), and the time-consuming and more often high cost of eviction processes.

For some people the downside of renting or simply for financial reasons selling the property still seems to be the best route. This is a good way to avoid the never ending property taxes and mortgage payments. As soon as the probate process has ended, you can get the property ready for sale with the help of a real estate agent who can handle the paperwork as well as all the local leg work.

Tax Implications

Taxes are a major concern when **selling an inherited property**. The IRS imposes taxes on the proceeds of the sale or the inherited property itself, but the laws vary from one state to another. Inheritance and estate taxes also differ. However, there are general rules that apply to all. To better understand the complex details on tax laws, it is recommended to have an attorney or accountant help you.

Estate Tax

The estate tax exemption also increased from \$ 5,340,000 in 2014 to \$5,430,000 in 2015, and the tax rate on the excess value of an estate also remains at 40%. All



of a decedent's assets (other than "income in respect of a decedent," such as IRAs and retirement plan benefits), as well as a surviving spouse's half of any community property assets, will have an income tax basis equal to the fair market value of those assets at the date of death ["stepped-up (or down) basis"].

Stepped-up Tax Basis

If the value of the Estate is less than \$5,430,000 (2015 death) and you decide to sell the property, you can greatly benefit from stepped-up tax basis!

The term 'stepped-up tax basis,' refers to the current market "appraised value," at the time of death. This means that if the previous owner bought the house for \$150,000 when the Estate is being valued with an appraisal at the time of death. Let's say the appraisal comes back at \$650,000; the new stepped-up tax basis will now be \$650,000. If after inheritance, you sell the property for market value of \$650,000, you can write off the cost of the sale, let's say \$45,000. You would actually be able to write off the \$45,000 as a loss on your tax returns and walk away with the difference tax free! This is why Real Estate is the best way to leave people money.

You decided to sell the inherited home, now what?

Preparing the property is one of the toughest, but most important activities that precedes the sale. Somehow, the property's aesthetic value determines the success of the sale. Here are some pointers to help you up your property's value and make it more attractive to sell.

Should You Sell the Home "As Is"

There is more to consider when **selling an inherited home**. Heirs with or without interest in the property can sell it as long as legal processes have been accomplished. One of the questions that most people who inherited a property ask is whether they should sell the house 'as is' or invest in repairs or remodeling before putting it up on the market.



Selling the property 'as is' simply means putting the property up for sale without any changes or remodeling done to the structure. Heirs will only need to clean out the property of all the deceased's personal belongings. This works best if the property has very little maintenance, and has been kept up throughout the years. This is because spending money on renovations of properties in bad condition may only lead to more loss than gain.

Properties in good shape, however, may still be worth remodeling. In this case the house is could still be in good condition, and may only need minor repairs to make it presentable. It is certainly worth getting the house cleaned and updated to get maximum value out of the sale, again you can write off any money that is invested in the property, which can be added to the stepped-up tax basis

Should You Fix Up the Home Before Selling

Inherited properties are usually not flawless depending on how well the previous owner took care of it. Sometimes, you will find the inherited home in bad condition. During a detailed home inspection, many other issues may arise, which can lead to the spending of thousands of dollars on repairs.

Before assessing all the needed repairs, you might want to do some general cleaning first or hire professional cleaners who can do this efficiently. This level of detail will help uncover even the slightest of issues. To bring out the best in the home you will need to see all the issues that need attention.

These new found issues could be as small as the door knob replacement or as large as uncovered the need for a roof replacement. Keep in mind that buyers are meticulous when it comes to kitchens, bathrooms, and bedrooms. If these areas need an update, you will need to do so. Getting a home inspector to come in and identify major problems on the house's structure will help you know which parts of the house will require professional contractor repair.

Once all the new repairs have been completed you will probably need a fresh coat of paint to give the house a fresh feel. Homes with curb appeal and nice landscape also helps homes sell. Get professional landscapers to update the yard and clean up the garden. You do not want to turn the buyers as they pull up to the home..

Previous owner's personal effects

Before the sale, clearing out the area of all the previous owner's personal effects is an emotional task that must be done meticulously. If the deceased is a close family member this emotional task becomes very painful. But clearing out the home is important because it enhances the property's marketability.



There are several ways that you can handle this draining task. If you have the time and want to try and maximize the value of the personal belongings, then you should host a garage sale, estate sale, or auction. Or you can hire professional services that can't handle the sale of the estates belongings for you. Or if you don't want to deal with the belongings at all you can simply donate them to charities, institutions of your preference, or thrift stores.

If you have the time and energy holding the garage or estate sale seems the most fitting. Sort out items of good value such as jewelry pieces, antiques, collectibles, furniture, and appliances. Online stores such as Craigslist.com and eBay.com are also an ideal supplement to an estate sale where the items would sell fast often at decent prices.

If you don't have time, energy or are not local to the home, the estate sale is the best way to go, especially if you think that the items hold higher values. Find an estate sale company to assess and market the items to help decide which items should be sold where. The estate sale company will also take care of selling the belongings for a commission between 5%-25%.

The estate sale though, compared to an auction is the slower process. Auction normally lasts only a few hours and generally all items will sell.

If none of these options appeal to you, donating the items to charities or thrift stores is a great option that also comes with a tax write off. Handing the valuables to charities or thrift stores will relieve you of all the responsibilities and stress of dealing with all these items.

Keeping up with home during selling process

While waiting for the inherited property to be sold, the maintenance never stops. Just because the inherited home is for sale, that doesn't mean you can relinquish your responsibilities as the temporary owner.

Insurance

Insurance is one of the major aspects of the property that you must not take for granted. Since most home insurance policies allows only 30 days of vacancy before it becomes invalid, you might want to purchase a plan that covers unoccupied properties, while waiting for it to be sold.

Utilities

The more the property is vacant, the more you need to look after it, especially



when utilities are involved. Since there is nobody present to take care of potential issues like emergency plumbing or storm damage, someone will need to check on the home periodically. Taking these for granted and not catching issues like this could lead to some extreme costs and delays. If you think that the season would affect the technical aspects of your property while unoccupied, be sure to check all things necessary: are the plumbing and furnace properly turned off? Is the home winterized? There is a lot to consider when leaving a home unoccupied and not regularly checked on.

Lawn Maintenance

Lawn maintenance is also important. While waiting for a sure buyer, never let the yard go un-mowed regularly, especially during the spring or summer season. In some communities, improperly maintained yards warrants a fine from the homeowners association, so keep that in mind also.

Security

An empty home is certainly prone to vandalism, no matter how secure the fences around it or how tightly locked the gates. Young kids looking for a place to party, or the homeless looking for a place to crash for the night, an empty house very attractive. Thieves may also break in to steal anything that they can sell; even copper pipes and copper wire.

Your absence may spell disaster if you fail to secure the home enough to ward off unwanted guests. Having someone frequenting the home may save you thousands in damages and theft.

Choosing a real estate agent

The success of selling an inherited home lies in the Real Estate Agent's experience in these matters. The first thing to check is the Agent's set of credentials, license, and tenure. Testimonials are also a big thing. As much as possible, choose one with good reputation and good character as well. A Real Estate Agent with good reputation ensures that you will get a good, if not the best value out of your home. His/her character will ensure that your property is in good hands. The keywords here are trust and reliability.

This applies most especially to those whose inherited properties are located across the country. It is necessary to find a Real Estate Agent who handles conflicts arising from proximity issues and state taxation laws. So, make sure you find an experienced Agent in the home's local area, with inherited home expertise!

Pricing and Negotiation



Pricing a home is difficult to determine. There are several references to monitor when figuring out the final asking price. An experienced Real Estate Agent has all the tools to help you price the inherited home. Even if you don't price the home exactly right a skillful negotiator has the power to turn things in your favor. But, being realistic and reasonable will ensure more gains than losses.

Set a reasonable asking price

Negotiations always determine the final price of the property, but some set the bar according to the price of similar properties sold. In order to move the home quickly, go for a realistic figure –not too high to the point of turning off prospective buyers. One primary factor that affects the price is the current real estate market condition from both buyer's and seller's perspective. Normally, the price will entice offers if the price is close to the market value of homes in the same community. But, the key to achieving a good price for the property lies in the Real Estate Agent's negotiation power.

Avoid making concessions

Eager buyers will suggest options such as seller assistance, escrow funds for improvements or repairs, and several more just to get away with lower closing cost. The final price will depend on how a seller and buyer negotiates. Remind yourself to not settle for less and stick with how much you and your real estate agent thinks the inherited home is worth.

Be prepared for the buyers' various negotiation tactics by educating yourself on all potential buyers responses and requests. Identify the things you "are" and "are not" willing to compromise on. Learn some counter-offers or walk away from offers that go against your needs and expectations. Being equipped with knowledge allows you to carefully think before jumping into an offer.

Sale Procedures

Selling an inherited home is neither easy nor hard, as long as you know the process. While you can leave everything to a Real Estate Agent, it is beneficial to have an overview of the whole process to guide yourself. Knowing these steps will help you protect your property.

Step #1

The local market affects the property's sale so, know the trend. It comes with determining whether the market is hot or cold. Hot means less sellers and more buyers who compete against each other by driving up the prices; A cold market is the opposite and buyers tend to be picky and always negotiating for lower price.

Step #2

Compare prices with other properties for sale based on such features as location, number of bedrooms and bathroom, size, among others. These houses are called "comparables" or "comps" which you can check by attending open houses, checking classifieds, or visiting real estate websites with listings.

Step #3

Hire professionals such as a reliable Real Estate Agent and a lawyer, to help with the sale. You can have one or both depending on how much you can or willing to afford. Real Estate Agents earn by commission (6% of the sale) while lawyers earn by the hour (about \$350 per hour). It may sound like a huge expense but finding a good Agent and Lawyer will speed up the sale process and therefore, save you time and money.

Step #4

Prepare the house for the sale. Remember that buyers will get a better impression of the house and will be more likely to make the purchase if the house looks at its best. There is also a good chance they would add a little more extra on the price if the house looks attractive and well maintained. Have people take a look around after improvements and get feedback to ensure you did not miss anything.

Heirs who are in a different location and wish to sell their property should consult a Real Estate Agent that specializes in this kind of transaction.

Property inspection

This one, you should not forget. Before putting your property on the market, do not forget to have it inspected. Hire a professional home inspector who would examine the entire property for problems, especially hidden ones, like plumbing issues, insulation, foundation walls, and other setback that may cause trouble for your buyers in the future.

Settle conflicts

Conflicts within the family circle may also hinder a successful sale. It is important to settle any taxation, legal, and/or personal matters with everyone involved in the inheritance. If one fails to set things straight, the problem might affect even the buyers in the future.

Hire a credible real estate agent

At some point, some things go down to the real estate agent's method of sale, which is why you should hire a credible one and learn the details of selling an inherited property. Some real estate agents may hold open houses (general or broker's open house) for initial interest; some hit the six-week wall in which no buyers show interest within six weeks after listing the property.

After the Sale

Settle all property-related finances

Expenses do not end after you list the property for sale. Payables like mortgage payments, utility bills, and regular household maintenance need to be settled accordingly until the property is sold.

Reporting sale proceeds

Those who decide to sell an inherited property are required to file a report to IRS declaring the sale's proceeds as taxable income. The amount of tax to be paid will depend on the stepped-up basis, which is calculated through the current market value of the property and other additional expenses for repairs. Usually your account can help you claim a loss on the sale.

SOME FINAL TIPS TO CONSIDER WHEN SELLING AN INHERITED HOME



Let's face it. No matter how careful you are in executing the Master Plans, you may still encounter some negative incidents, which you should be prepared to handle.

Among these are:

Longer probate period. Executors and/or beneficiaries can use or access the property and assets in several ways without the need for transfer of ownership. It may be temporary as the ownership will eventually need to be transferred to a sure buyer. However, the owners lose money as it is kept from making sale. Heirs living in a different location are prone to this problem. The best way out of this is to find a Real Estate Agent who is an expert in handling such cases.

Equal distribution. Having more than one heir, usually siblings, often becomes a source of conflict. This is the reason why the person responsible should ensure equal distribution, as well as settle the value of assets under amicable terms.

Assets with sentimental value. Given that specific assets hold valuable memories, heirs should be more understanding of the equal distribution process and ethics. With this being said, emotions must be set aside during this time.

The inherited property might cause more loss than gains. In some cases, the



inherited property owes bigger amount of money in mortgage than its actual value. Other concerns that are environmental in nature may also be attached to the inheritance. If the heir finds that these issues may cause more trouble or loss in the future, he/she the right and freedom to accept or reject the inheritance. The best way to figure this out is with a Real Estate Agent who is an expert in handling this.

Inheritance is generally a good news, but it comes with great responsibility and a series of possible conflicts. This happens mostly if the heir, or heirs, are located in another state or country and has no intention of moving to the inherited property. Most often, selling the property along with its assets is the first and only option, when distance becomes the primary issue.

A Real Estate Agent who specializes in such cases and is willing to go the extra mile is the key to a successful transaction; especially one who is an expert at the estate and taxation system in the inherited homes state. Here at Integrated Realty Group, we have a professional network to help you every step of the way. Feel free to contact us with any questions you may have about your newly inherited property. It's always better to get us involved early in the process to make sure we have a full plan from start to finish.

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2015-2016 | Integrated Realty Group