

2026-4-6

Est. Plan

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'I plan to take out a mortgage': My father died. Should I buy the family home from my mom at a 40% discount? Story by Quentin Fottrell 2026-4-5

Dear Quentin,

My father has passed away, and I'm looking to purchase my family home from my mother, who inherited it. I plan to take out a mortgage to pay off my siblings and the small existing mortgage on the property. I would still be purchasing the home at a 40% discount.

I've been caring for my mother, and we each occupy a unit in the house. Is this a good idea?

Making a Family Plan

Dear Making,

Three things: You should have the cooperation of your siblings; that discount will be treated as a gift by the Internal Revenue Service, but it will likely fall well within the lifetime exemption; and you are trading your step-up in basis for this 40% discount.

This house is where you grew up so, I imagine, your siblings will be happy that you intend to keep it in the family for years to come. Adult children can become emotionally attached to the family home so, for a smoother transition, scope their opinions out ahead of time.

To make the arrangement a "wash," or fair deal among your siblings, your mom would have to adjust your inheritance. One option is to adjust her will so that your future inheritance is reduced by \$200,000, so your siblings receive a larger share to compensate for the 40% discount.

This would ensure that, over time, everyone receives an equitable (if not exactly equal) portion of her estate. Another option is for you to buy the property at fair market value and effectively buy everyone out, but that will also increase your mortgage payments.

What you're planning to do, however, is not unreasonable, given that you're living in the house, taking care of your mother, and taking on the other responsibilities that come with the property (property tax, maintenance, utilities, etc.).

If you take this route, hire an independent appraiser to give you the fair market value on paper, make sure your income supports any mortgage, and double check whether a change in ownership would trigger a reassessment and higher property taxes.

Calculating the gift tax

Next, the gift tax. Let's say your mother and father bought the family home for \$100,000 way back when, the house now has a fair market value of \$500,000, and she sells it to you for \$300,000. That \$200,000 difference is considered a gift from your mom to you.

Under U.S. tax rules, the responsibility for gift tax falls on the giver — in this case, your mother — not on you as the recipient/purchaser. She will have to include this transaction in her tax return (filing a Form 709) because it exceeds the \$19,000 annual gift exemption.

However, she won't owe taxes on the \$200,000 gift because the lifetime gift- and estate-tax exemption is \$13.99 million (\$27.98 million for married couples). Under these rules, the \$200,000 gift, taking into account the \$19,000 annual exclusion, is actually \$181,000.

So that \$182,000 counts against her total lifetime exemption, which she is unlikely to exceed unless she sits at the head of a multimillion-dollar family empire that you have neglected to mention. No one will be left out of pocket with gift tax.

Whatever you do, protect against potential family disputes or legal challenges by formalizing the transaction with a purchase agreement, and hire an attorney and tax professional to update your mother's will with full transparency for your siblings.

Also, keeping detailed records of the transaction (purchase price ^{Note}/appraisal and the gifted portion) to help smooth the capital-gains reporting at a future date. Remember, a capital gain is only realized when you sell the property. Until then, there is no tax due.

Your step-up in basis

Capital-gains tax, if and when you decide to sell the property, presents a more complicated outcome. If your mother sells you the property for \$300,000, at that 40% discount, you lose a large chunk of your step-up-in-basis tax advantage.

A step-up in basis allows you to "step up" the value from the original purchase price (\$100,000 for simplicity) and allows heirs to avoid paying capital-gains tax on the massive appreciation in value on the original \$100,000 purchase price.

Still, you only pay capital-gains tax when you sell the property. That means if you buy the house now from your mother at a 40% discount, there is no capital-gains tax due today. If you sold the property for \$700,000 later on, you'd owe capital-gains tax on \$360,000. Note

Briefly, here's how I got to that figure: The \$300,000 you paid keeps its full step-up in basis of \$300,000, but the \$200,000, or 40%, discount — based on the \$500,000 fair market value at the time of your mother's death — carries a proportional share of your mother's original basis.

Your mother's original basis in the entire property was \$100,000 (the "price" she and her husband, your father, paid for it). As the gifted portion represents 40% of the total value, you inherit 40% of her cost basis, which equates to \$40,000.

And if you add this cost basis (\$40,000) to the \$300,000 you paid for the house and you later sell the property for \$700,000, you would then subtract that \$340,000 basis from the final sale price, resulting in a capital gain of \$360,000 before all deductions/exemptions.

The biggest sticking point here is selling this plan to your siblings.

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