

SPLITTING HEIRS

The transfer of wealth from one generation to another will hit its peak in just a few years and understanding the tax impact on the heirs is an important consideration. Traditionally, financial planners have focused most of their efforts on helping clients accumulate wealth, now is the time to plan for the transfer of that accumulation.

It has been reported that more than half of the nation's personal wealth is held in non-financial assets, such as houses, land, farms and personally owned businesses. Based on past experience, the value of this wealth will grow over the next half century, and at the same time most of it will change hands. The majority of this huge transfer of wealth will go to spouses, children and charitable causes. A significant portion also will go to state and local estate taxes unless a plan is developed to prevent it.

Section 1031 is the perfect strategy to assist clients in moving their active real estate investments into passive investments, without paying capital gains tax. Tenancy-in-Common (TIC) and Umbrella Partnership Investment Trusts (UP-REIT) properties provide an excellent transfer investment vehicle. Heirs will gain tax advantage through a stepped-up basis upon the death of the owner and they will not inherit deferred taxes or a management nightmare in the process. A sale of the property is not necessary; cash flow is easily divisible to the heirs if they elect to hold their newly inherited investments. Cash flow from passive investments takes little time and attention and there is less arguing between the inheriting parties.

Cashing out of wholly owned real estate requires an agreement of the parties as to broker selection and price. The sale of passive investments such as TIC's or REIT shares is simplified; TIC's are not generally sold until the entire project is sold or refinanced. A growing majority of REIT shares can be traded openly on the market in a variety of increments thereby negating the need to fully liquidate the investment. In either case, the sale of investment real estate by the heirs will be at a stepped-up basis so the assets can be passed without the deferred taxes.