



Life Estate Deeds

Senior homeowners frequently want to know how to “protect” their home for the family. Some think the best way is to transfer it family members. While protection is a legitimate concern, some methods are better than others. There is tremendous risk when transferring outright ownership of the home to other family members and there are possible harmful tax implications.

A preferable method of transfer is called a Life Estate Deed.

A typical Life Estate deed legally transfers the future ownership in real estate, and reserves rights of current ownership in the person making the conveyance. This is different than an *outright transfer* where no strings attach to the conveyance. A “life estate” is similar to the concept to a timeshare. With a timeshare, a person owns the right to use property during a designated period of ownership. An owner of a life estate has the right to live in the property for a lifetime. The lifetime right automatically terminates upon death when persons designated in the deed become outright owners.

Life Estate Deeds are used for Estate Planning and Medicaid Planning purposes.

There are at least 9 reasons for using the Life Estate deed as a planning tool.

- 1) a shortened Medicaid penalty period and avoidance of Medicaid liens;;
- 2) keeps the home out of probate;
- 3) the children can't make the parent move out and the parents retain the legal right to inhabit, sell, or rent, the property for the remainder of their lives;
- 4) less expensive than using a revocable living trust;
- 5) capital gains taxes upon sale after parent’s death are calculated as if the property passed to children at death (with stepped-up basis);



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- 6) parents remain responsible for all taxes, insurance and maintenance on the home.
- 7) parents still qualify for property tax, veterans and senior citizens exemptions;
- 8) children's creditors can make no claim on the property;