

BUSINESS

Elderly and cash-strapped, a couple consider a proposal to sell their home to neighbors



Questions and possible problems arise when an elderly, cash-strapped couple consider a proposal to sell their house to neighbors. (Nam Y. Huh / Associated Press)

By Liz Weston

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Dear Liz: I'm 80 years old and my wife is 76. Our only retirement income is Social Security, and we have less than \$50,000 in savings. We have about \$600,000 equity in our house, which we bought in 1971. We presently have property taxes deferred, at 6% interest. The house is in disrepair.

We have two neighbors who are willing to buy the house after one or both of us die. The neighbors are willing to postpone occupancy and contribute to mutually agreed-upon home repair costs, which will be deducted from the selling price. Details will all be in the contract. These payments will greatly improve our lives. What could go wrong?

Answer: Well, a lot, which is why you need an experienced real estate attorney to represent you if you go ahead.

It's not clear from your letter if your neighbors are locking in a sale price now, which would mean you and your wife (or your estates) would give up future price appreciation. Are the payments simply contributions toward the repairs or are they purchase payments? Also, what happens if you need to tap your equity to pay for long-term care? If you or your neighbors want out of the deal, would that be possible? Those and many more details need to be thought through.

But your situation, and your proposed solution, are not that unusual, says Los Angeles estate planning attorney Burton Mitchell. Many older people with highly appreciated properties don't want to sell their homes and trigger taxable gains in excess of the \$250,000-per-owner home sale exclusion.

Another alternative to consider is a reverse mortgage, which could allow you to tap your equity while you remain in the home. You wouldn't have to make payments on this loan, and the balance would not be due until you and your wife die, sell the home or move out.

That Social Security check is in the mail. Or will be someday.

Dear Liz: I was previously denied a portion of my husband's Social Security because I received a government pension, and the offset rule made me ineligible. Now that the law is being changed, I'm wondering if I would be eligible to receive survivor benefits from Social Security, as my husband is now deceased.

Answer: The Social Security Fairness Act, which did away with the windfall elimination provision and the government pension offset, was signed into law Jan. 5. These two provisions affected people who earned pensions from government jobs that didn't pay into Social Security.

Social Security says that no action is needed if you have previously filed for benefits that were partially or completely offset, but that you should make sure the agency has your current address and direct deposit information. You can do that by creating or updating a mySocialSecurity account at www.ssa.gov/myaccount. People receiving government pensions who haven't applied for Social Security can do so at www.ssa.gov/apply.



Social Security is still working on implementing this major change, but you can look for updates at www.ssa.gov/benefits/retirement/social-security-fairness-act.html.

More on those lost home improvement receipts

Dear Liz: You recently answered a question from a home seller who had lost documentation about improvements. The improvements most likely required building permits, which would have indicated the scope of improvements and, possibly, the cost as well. The local building department will have copies of those permits on file, and they can be obtained at a modest cost.

Answer: Thank you. The original letter writer had lost their documents in a house fire, a circumstance now shared by far too many in the Los Angeles area, thanks to the recent wildfires.

To recap, the value of qualifying home improvements can reduce the taxable gain when a house is sold. But if audited, sellers probably would need some kind of proof the work was done.

Mark Luscombe, principal analyst for Wolters Kluwer Tax & Accounting, suggested asking any contractors that were hired to provide verification of the projects and to check with the property tax assessor to see if the improvements were reflected in the home's assessment. Photos of the home reflecting the improvements could also help in an audit, Luscombe says.

Liz Weston, Certified Financial Planner®, is a personal finance columnist. Questions may be sent to her at 3940 Laurel Canyon, No. 238, Studio City, CA 91604, or by using the "Contact" form at asklizweston.com.

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