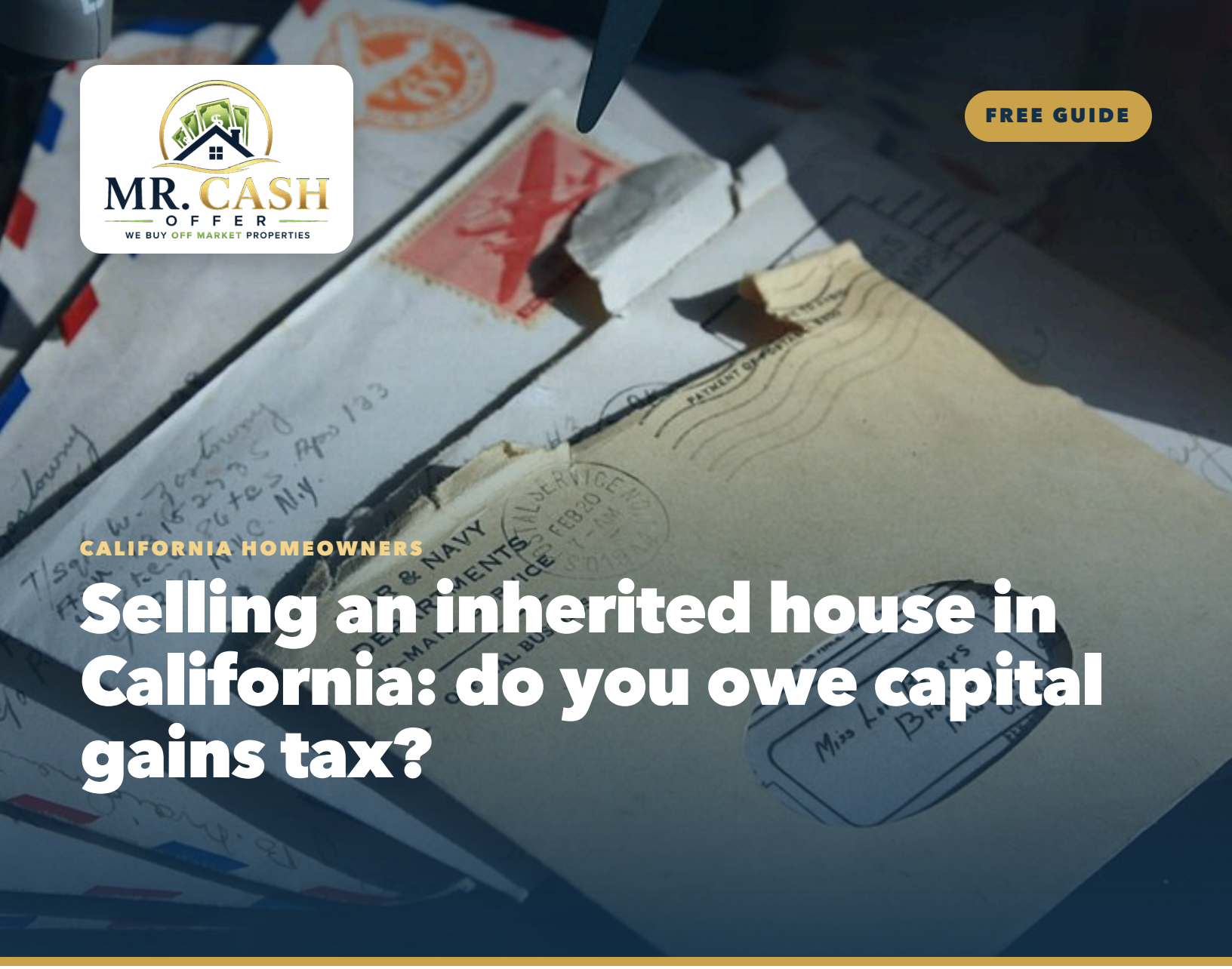

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FREE GUIDE

CALIFORNIA HOMEOWNERS

Selling an inherited house in California: do you owe capital gains tax?

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INSIDE

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Questions? Talk with Fadi.
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Selling an inherited house in California: do you owe capital gains tax?

From Mr. Cash Offer, with Fadi Haweileh, CA DRE #02002344 · Facts checked November 23, 2026 · Online: mrcashoffers.com/guides/capital-gains-inherited-home-california/

QUICK ANSWER

Generally only on gain after the date of death. For federal tax, an heir's basis in an inherited house is generally its fair market value on the date of death, not what the parents paid. California taxes the gain as ordinary income, and a tax professional can tell you what applies to your family.

At a glance

Question	What the IRS or FTB says
Starting value (basis)	Generally the home's fair market value on the date of death
Short-term or long-term?	Inherited property counts as held longer than 1 year
How gain is figured	What you receive from the sale minus selling costs, minus your basis
$250,000 / $500,000 home sale exclusion	Generally only if you owned and lived there 2 of the last 5 years (a partial exclusion may apply for a qualifying job move, health reason or unforeseeable event)
California	No lower rate: "All capital gains are taxed as ordinary income"
At escrow	California withholding (Form 593) unless an exemption applies

What is "stepped-up basis"?

Your basis is the starting value used to figure taxable gain. Federal tax law (Internal Revenue Code section 1014) sets the basis of inherited property at "the fair market value of the property at the date of the decedent's death." IRS Publication 551 adds that it can instead be the value on a later "alternate

valuation date" if the estate's personal representative chooses it.

If a federal estate tax return (Form 706) was filed or required, the IRS says the value on that return is your basis.

How is the gain figured?

Example (made-up numbers): why the date-of-death value matters

Made-up numbers. $30,000 selling costs. Gain: $740,000 - $30,000 - $700,000 = $10,000. Without the step-up it would be $620,000. Ask a tax professional about yours.



The IRS says you figure gain "by subtracting your adjusted basis from your amount realized." The amount realized is what you receive from the sale, and the IRS says selling costs (such as agent commissions) reduce it.

Example (made-up numbers). Parents bought a house for $90,000. It was worth $700,000 on the date of death. The heir sells it for $740,000 and pays $30,000 in selling costs.

- Amount realized: $740,000 minus $30,000 = $710,000
- Basis: $700,000 (the date-of-death value)
- Gain: $10,000

If the basis had stayed at the parents' $90,000, the gain would have been $620,000. That difference is the step-up. Real numbers depend on your facts. If the sale nets less than the basis, there's no gain; whether a loss can be used is a question for a tax professional.

Is it short-term or long-term?

Long-term. Normally you must own something more than a year for that. Inherited property is an exception. IRS Publication 544: "If you inherit property, you are considered to have held the property longer than 1 year, regardless of how long you actually held it."

What if I'm the surviving spouse?

California is a community property state. IRS Publication 555 says that when a spouse dies, "the total fair market value (FMV) of the community property, including the part that belongs to you, generally becomes the basis of the entire property." So both halves can get the new basis. Two IRS conditions: at

least half the value must be includible in the late spouse's gross estate (a tax professional can tell you whether that's met), and "this rule doesn't apply to RDPs" (registered domestic partners).

If the home was owned jointly but not as community property, the IRS says only the late spouse's share gets the new basis, and your share keeps its old basis. How the title was held matters, so ask a tax professional or attorney to look at the deed.

Can I use the $250,000 home sale exclusion?

Only in some cases. You may be able to exclude up to $250,000 of gain on a main home ($500,000 for married couples filing jointly), under section 121 of the tax code. To get the full exclusion, IRS Publication 523 says you generally must have "owned the home for at least 2 of the last 5 years and lived in the home for at least 2 (1 if you become disabled) of the last 5 years leading up to the date of the sale."

Pub 523 lets a surviving spouse who hasn't remarried count the late spouse's ownership and use. For other heirs, the 2-year tests above are about your own ownership and use. The $500,000 limit may apply if the home is sold within 2 years of the death, you haven't remarried at the time of the sale, neither you nor your late spouse took the exclusion on another home sold less than 2 years before, and the 2-year tests are met.

Two different rules

Federal rules (IRS Pubs 523, 544, 551). Other conditions apply. Ask a tax professional.

Step-up in basis

- Basis is generally the value on the date of death
- Gain is measured from that value
- Counts as long-term however soon you sell

$250,000 / $500,000 exclusion

- Generally only if you owned and lived there 2 of the last 5 years
- Surviving spouses who haven't remarried can count the late spouse's time
- $500,000 may apply to a spouse who sells within 2 years of the death, hasn't remarried and meets the other tests

What forms are involved?

- **Form 1099-S** ("Proceeds From Real Estate Transactions"). The IRS says the person responsible for closing the sale generally files it.
- **Form 8949 and Schedule D.** The IRS says most sales are reported on Form 8949 and summarized on Schedule D (Form 1040). For an inherited home, the instructions say to generally report it in Part II and write "INHERITED" as the date acquired.
- **If you got a 1099-S:** Pub 523 says "you must report the sale on Form 8949 even if you have no taxable gain to report."

Does California tax the gain?

Yes. The Franchise Tax Board (FTB): "California does not have a lower rate for capital gains. All capital gains are taxed as ordinary income." (California has no inheritance tax, per the state's Tax Service Center, but that's separate from income tax on a sale.)

Why does escrow hold back money for the FTB?

California generally requires withholding when real estate is sold. Under the FTB's 2025 Form 593 instructions:

- The standard amount is 3 1/3% of the sales price. In the made-up example, that's $24,642 on $740,000.
- The seller can instead choose an "alternative withholding calculation" based on estimated gain.
- No withholding is required if the price is $100,000 or less, the property is in foreclosure, or the seller certifies an exemption on the form.
- Exemptions include a loss or zero gain (when the amount realized is less than or equal to your adjusted basis) and a main home under section 121. For a sale by the estate or trust, the main-home lines look at the decedent's use of the home.
- The FTB warns that you can't claim a loss "just because you do not receive any proceeds from the sale or because you feel you are selling the property for less than what it is worth."

After closing, the FTB says withheld money "may be recovered only by claiming the withholding as a credit" on a California tax return. Ask a tax professional about Form 593 before closing.

Who pays if the estate or trust sells?

It depends on who legally owns the house. IRS Publication 559 says title to real property is often in the beneficiaries' names even when the personal representative can sell, and to "consult local law to determine the legal owner." An estate with gross income of $600 or more in a year files its own return (Form 1041). Ask your probate attorney and a tax professional before the sale.

What to do this week

1. **Gather the deed,** any trust papers and the date of death.
2. **Get a date-of-death value in writing.** A written appraisal as of that date is a common way to document it (a practical tip, not an IRS rule). In probate, an inventory and appraisal is also filed within four months after letters. Ask a tax professional how to document the value.
3. **Keep every selling cost** on paper, such as agent commissions. Ask a tax professional which costs count.
4. **Book a tax professional before you sign a listing or sale contract,** and ask about California's Form 593 withholding.
5. **If the estate or a trust is selling,** ask the attorney who reports the sale.

Watch out for

- **"You'll owe a huge tax, so sell fast."** Pressure to sell fast because of taxes is a reason to slow down. The rules above are public.
- **Unsolicited offers.** The DRE has warned that unsolicited offers are often made "far below market value." Its red flags include promises of "all cash, a quick closing, a hassle-free transaction." DRE's advice: "take the time to have a professional help you determine the value of the property." That goes for our offer too.

Questions people ask

Do I pay capital gains tax on an inherited house in California?

Only on any gain above your basis, which is generally the value at death. California taxes that gain as ordinary income.

Do I have to wait a year to sell?

Not for long-term treatment. The IRS treats inherited property as held longer than one year.

Can I use the $250,000 exclusion?

Generally only if you owned and lived there as your main home 2 of the last 5 years (a partial exclusion may apply for a qualifying job move, health reason or unforeseeable event). Surviving spouses have extra rules.

Will escrow hold back money?

Often, unless a Form 593 exemption applies. It's claimed as a credit on your California return.

Related: Inherited a house in California? The first 30 days · Probate in California, step by step · Cash offer or list it? · Prop 19 and an inherited home

Where Mr. Cash Offer fits

Fadi Haweileh is a California real estate salesperson (DRE #02002344) with eXp Realty of Greater Los Angeles, Inc. (DRE #02188471). He isn't a tax professional. If you sell to Mr. Cash Offer, the buyer is not your agent and can profit if the house is later resold. If you list with Fadi's team instead, he earns a commission. Either way he's paid. If selling turns out to be the right path, he'll show you a cash offer and what listing would likely net, side by side, and you decide. If it isn't, the steps above still apply. A cash offer is usually below full market value. Before you decide, get a second estimate from an agent who isn't buying.

Call Fadi, no pressure: **(909) 731-6884**



Questions about your situation?

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Sources

Checked on November 23, 2026.

- 26 U.S.C. 1014 (basis of inherited property) (https://www.law.cornell.edu/uscode/text/26/1014)
- IRS Publication 551, Basis of Assets (https://www.irs.gov/publications/p551)
- IRS Publication 523, Selling Your Home (https://www.irs.gov/publications/p523)
- IRS Publication 544, Sales and Other Dispositions of Assets (https://www.irs.gov/publications/p544)
- IRS Publication 555, Community Property (https://www.irs.gov/publications/p555)
- IRS Publication 559, Survivors, Executors, and Administrators (https://www.irs.gov/publications/p559)
- IRS Topic 409, Capital gains and losses (https://www.irs.gov/taxtopics/tc409)
- IRS Topic 703, Basis of assets (https://www.irs.gov/taxtopics/tc703)
- IRS Instructions for Form 8949 (https://www.irs.gov/instructions/i8949)
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- FTB, Capital gains and losses (https://www.ftb.ca.gov/file/personal/income-types/capital-gains-and-losses.html)
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- California Tax Service Center, Special circumstances (https://taxes.ca.gov/income-tax/special-circumstances/)
- Probate Code 8800 (inventory and appraisal) (https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=PROB&sectionNum=8800)
- DRE, "Protect Your Property: Tips to Spot Unsolicited Offers" (Feb. 11, 2025) (https://dre.ca.gov/newsroom/DRE_Updates/2025_02_11_ProtectYourProperty.html)

This guide explains general California rules. It isn't legal or tax advice. Talk with a tax professional about your situation.