

MONEY MYTHS SERIES

Should You Deed Your House to Your Kids? What It Really Costs in California

Why deeding your house to your kids now can cost them six figures in capital gains tax, and what to use instead in California.

By Eric Ridley, attorney, Ridley Law · Updated September 2026 · Read online with live links: ridleylawoffices.com/gifting-house-to-children-california/

Part of our [money myths series](#), where we take the money advice going around Instagram, TikTok and YouTube and check it against the actual rules.

The claim: Deed the house to your kids now. They skip probate, the nursing home can't take it, and nobody pays inheritance tax.

The verdict: For most California families this is the most expensive way to pass down a house. Your kids lose the step-up in basis under IRC § 1014 and can owe six figures in capital gains tax when they sell, you file a gift tax return, the county can reassess the property, and the house becomes reachable by your child's creditors while you're still living in it. A funded living trust or a transfer on death deed avoids probate without any of that.

\$0 vs. \$248,728

Tax on a \$1M sale: inherited vs. gifted (hypothetical, 2026 rates)

\$19,000

Gift tax annual exclusion per recipient, 2026 (IRS)

\$15,000,000

Federal lifetime gift and estate exemption, 2026 (IRS)

1 year

Time the child has to move in for the Prop 19 exclusion (R&T Code § 63.2)

30 months

Medi-Cal look-back once fully phased in, July 2028 (DHCS)

Who gets paid when you follow this advice? Usually nobody sells you the deed itself. The person posting gets paid in attention: platform ad revenue on the video, and followers who later buy a course, a coaching program or an "asset protection" package. Paid promotions are supposed to be disclosed under the FTC's Endorsement Guides, but advice that only earns views carries no disclosure at all. The parties guaranteed to get paid are the government ones. When your child sells, the IRS and the California Franchise Tax Board collect tax on decades of appreciation that would have been wiped out at your death. The county assessor may collect a higher property tax every year.

Why do people tell you to deed the house to your kids?

Because it looks like it solves three fears at once: probate, nursing-home costs and taxes at death. Each fear is real. The deed fixes the first one, does far less than people think about the second, and makes the third worse.

The social media version fits in one line: "Put the house in your kids' names and you'll never deal with probate." It's true that a house your child already owns doesn't go through your probate. It's also true that a house in a funded living trust or covered by a recorded transfer on death deed doesn't go through probate either, and those tools leave you as the owner until you die. The difference is everything that happens in between, and what happens when your kids sell.

What does a gift of the house cost your kids in tax?

It can cost them their step-up in basis, which is often worth more than the house's probate cost many times over. Under IRC § 1015, a person who receives property as a gift takes the giver's old basis. Under IRC § 1014, a person who inherits property at death takes a new basis equal to its value on the date of death.

Basis is what the tax code treats as your investment in the property. Gain is the sale price minus basis. If your parents bought their house in 1996 and it's worth five times as much today, almost all of that value is taxable gain if they give it away. Hold the same house until death, and the gain mostly disappears.

The example below is hypothetical, with numbers that are ordinary for coastal California.

- Your parents' basis in the house (purchase price plus improvements): \$200,000.
- Value now, and the price it later sells for: \$1,000,000.
- The child who sells is single and earns \$95,000 a year.
- Federal figures use the 2026 brackets, standard deduction and capital gains thresholds in Rev. Proc. 2025-32. California figures use the 2025 Schedule X, the latest the FTB has published, with no deductions or credits, so they're estimates.

Whole house deeded now

\$248,728

Child added to title (half)

\$110,138

Inherited via trust or TOD deed

\$0

How the child got the house	Child's basis	Taxable gain on a \$1,000,000 sale	Federal capital gains tax	Net investment income tax (3.8%)	California income tax	Total tax
Parents deed the whole house now	\$200,000	\$800,000	\$136,670	\$26,410	\$85,648	\$248,728
Parents add the child to title for half	\$100,000 on the gifted half, stepped up on the other half	\$400,000	\$60,000	\$11,210	\$38,928	\$110,138
Child inherits through a trust or TOD deed	\$1,000,000	\$0	\$0	\$0	\$0	\$0

Two rules drive the size of that bill. California doesn't give capital gains a lower rate; the FTB says plainly that all capital gains are taxed as ordinary income. And the 3.8% net investment income tax under IRC § 1411 kicks in once a single filer's income passes \$200,000, which a large one-time gain does easily.

The gifted house also loses a break your parents had. Under IRC § 121, an owner who lived in the home as a principal residence for two of the last five years can exclude up to \$250,000 of gain, or \$500,000 on a joint return. Your parents qualify. A child who never lived there doesn't.

Selling costs, depreciation and the child's own deductions will move these numbers. The direction won't change. Our page on [capital gains on an inherited house in California](#) walks through the inherited side in detail, and [the community property step-up](#) explains why married California couples often get a full step-up on both halves at the first death.

Do you have to file a gift tax return if you deed the house to your kids?

Yes, almost always. A house is worth far more than the \$19,000 per-recipient annual exclusion for 2026, so the gift has to be reported on IRS Form 709 under IRC § 6019.

You probably won't owe gift tax. The IRS set the 2026 basic exclusion at \$15,000,000 per person, and the gift just uses up part of it. The IRS instructions say you must file "whether or not any tax is ultimately due." The filing is still a cost: a qualified appraisal, a preparer, and a permanent record. Many families who deed a house this way

never file at all, and the gap shows up later when the house is sold or when the estate is settled. Our page on [gift tax in 2026](#) covers the exclusion and the return.

Will the county reassess the house if you deed it to your kids?

Often, yes. Since Proposition 19, a parent-to-child transfer keeps the parent's Prop 13 value only if the house was the parent's principal residence and becomes the child's principal residence within one year, and the child files for the homeowners' exemption within a year (R&T Code § 63.2).

That's the trap in the "deed it now" plan. If you deed the house to your daughter and keep living in it, she isn't moving in. The transfer is a change in ownership with no exclusion, and the assessor can reset the taxable value to market. Even when a child does move in, the exclusion only covers value up to the old taxable value plus \$1,044,586 for transfers from February 16, 2025 through February 15, 2027 (R&T Code § 63.2; Board of Equalization). Anything above that gets added. Our pages on [the Prop 19 parent-child exclusion](#) and [how to file for it](#) go through the steps.

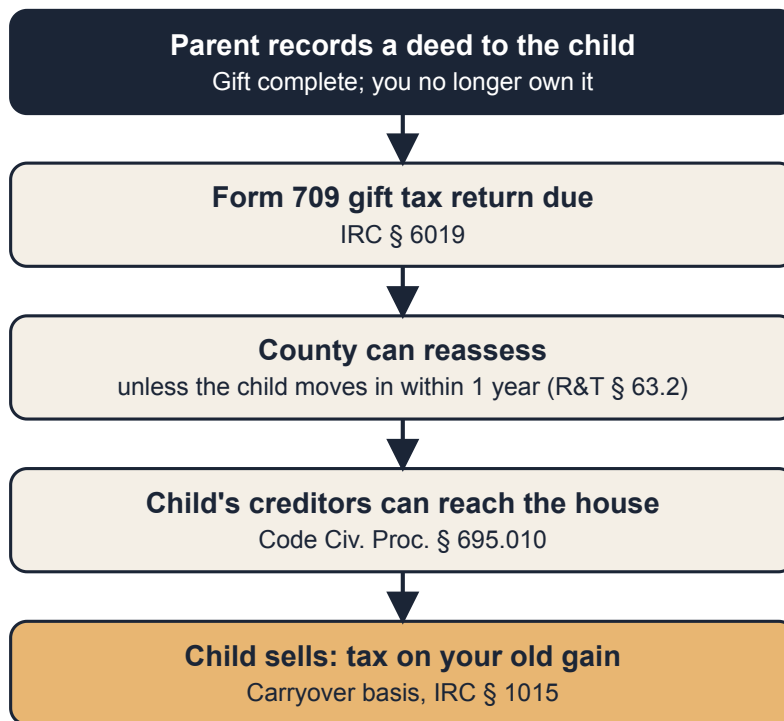
Does deeding the house to your kids protect it from Medi-Cal?

Usually it protects nothing that wasn't already protected. While you live in the house, or intend to return to it from a nursing facility, your principal residence is exempt for Medi-Cal eligibility (Welf. & Inst. Code § 14006). After you die, California limits Medi-Cal estate recovery to the probate estate (Welf. & Inst. Code § 14009.5). A house that passes through a funded trust or a recorded TOD deed isn't in the probate estate.

The gift is where the risk sits. The Medi-Cal asset test returned on January 1, 2026, with limits of \$130,000 for one person and \$65,000 for each additional person (DHCS, ACWDL 25-14). A 2026 budget bill, SB 164, lowers them to \$21,000 for one person and \$31,000 for two, no sooner than July 1, 2027 (Welf. & Inst. Code § 14005.62). Under § 14015, a transfer for less than fair market value can cause a period of ineligibility for nursing-home level care. The statute carves out assets that were exempt when they were transferred (§ 14015(b)(1)), and DHCS tells counties that transfers of exempt assets aren't penalized (ACWDL 25-18). So deeding your home to your children while it's still your exempt principal residence doesn't trigger a Medi-Cal transfer penalty. It doesn't buy anything either, because the home was already exempt.

The rule cuts the other way for cash and other countable assets. Give your kids your savings or a rental property and the county reviews the transfer, with a look-back that's getting longer: an application filed in October 2026 looks back 9 months, and the full 30 months applies to applications on or after July 1, 2028 (DHCS, ACWDL 25-18).

So the gift buys no Medi-Cal protection that a trust or TOD deed wouldn't give you, and it costs the step-up for certain. Our pages on [whether Medi-Cal can take your house](#) and [the look-back phase-in](#) cover the rest.



What happens if your child gets sued, divorced or goes bankrupt?

Once the deed is recorded, the house is your child's property, and in California all property of a judgment debtor is subject to enforcement of a money judgment (Code Civ. Proc. § 695.010). A car accident your son causes or a business debt your daughter can't pay can now reach the house you live in.

Divorce is less of a threat than people say, and it's worth getting right. A gift to a married child is that child's separate property under Fam. Code § 770. The risk comes later, if the child adds a spouse to title or the couple pays the mortgage and taxes from community funds. Bankruptcy and judgments are the larger danger.

You also lose control. You can't sell, refinance or take out a reverse mortgage without your child's signature. If the relationship sours, or your child pressures you, the law treats taking an elder's property by undue influence as financial abuse (Welf. & Inst. Code § 15610.30). Those cases are hard and slow to win, and they start after the damage is done. Our guide to [elder financial abuse in California](#) covers the warning signs, including a relative pressing a parent to sign over the house "for Medi-Cal."

What if you deed the house to your kids but keep living there?

Then the IRS may treat the house as still yours at death. Under IRC § 2036, property you gave away is pulled back into your estate if you kept possession or enjoyment of it until you died.

The Tax Court applied that rule to a father who deeded his residence to his daughters and kept living there. It found an implied agreement that he would keep possession, and it noted the burden of disproving such an understanding is "particularly onerous" in family arrangements (*Estate of Rapelje v. Commissioner* (1979) 73 T.C. 82). When a house is pulled back into the estate this way, IRC § 1014(b)(9) can give the heirs a stepped-up basis after all. That can rescue the tax result. It doesn't undo the reassessment, the creditor exposure or the years you spent without control of your own house, and it depends on facts you'd rather not have the IRS examine.

What should you do instead?

Use a tool that moves the house at death, not now. Both of these avoid probate and keep the step-up:

1 A funded revocable living trust

You stay in control, you can change it, and a successor trustee can step in if you become incapacitated. The trust has to actually hold the house; a trust with no deed recorded into it does nothing. See [how to fund a trust](#).

2 A California transfer on death deed

It names who gets the house at death and gives them no rights before then. It's inexpensive, and it's a real tool for a simple situation. It doesn't cover incapacity or other assets. See [how a California TOD deed works](#).

If your concern is adding a child to title for convenience rather than gifting the whole house, the problems are similar and we cover them on [adding your kids to the deed instead of a trust](#).

	Deed the house to your kids now	Funded living trust or TOD deed
Avoids probate	Yes	Yes
Kids' basis when they sell	Your old basis (IRC § 1015)	Value at your death (IRC § 1014)
Gift tax return	Form 709 required	None
Prop 19 reassessment	Likely, unless the child moves in within a year	Same parent-child rules apply at death, when the child can choose to move in
Medi-Cal	No penalty if it was still your exempt home (Welf. & Inst. Code § 14015(b)(1)), but no added protection	No transfer during life; outside the probate estate for recovery
Your child's creditors	Can reach the house now	No rights until your death
You can sell or refinance alone	No	Yes
Covers your incapacity	No	Trust yes; TOD deed no

When does giving the house to your kids make sense?

Sometimes it does, and it's fair to say so. A lifetime gift can work when the house hasn't gone up much in value, so there's little step-up to lose. It can work when the child is moving in for good, qualifies for the Prop 19 exclusion and will meet the IRC § 121 ownership and use test before selling. It can be part of a planned Medi-Cal strategy done with the look-back calendar in front of you. And for estates well above the \$15,000,000 exemption, moving future appreciation out of the estate can matter. Each of those is a planning decision made with numbers, not a default.

Frequently asked questions

Is it better to gift a house or leave it in a will or trust in California?

For a house that has gone up in value, leaving it at death is usually better. Inherited property gets a basis equal to its value at death under IRC § 1014; gifted property keeps your old basis under IRC § 1015. A trust also avoids probate, which a will alone doesn't.

Do I owe gift tax if I deed my house to my children?

You almost never owe gift tax, because the 2026 lifetime exemption is \$15,000,000 per person. You do have to file Form 709 for any gift to one person above \$19,000 in 2026.

Can I put my house in my kids' names to avoid the nursing home?

You rarely need to. Your home is exempt for Medi-Cal eligibility while you live in it or intend to return (Welf. & Inst. Code § 14006), and estate recovery reaches only the probate estate (§ 14009.5). Deeding an exempt home to your children isn't penalized (§ 14015(b)(1)), but it gains you nothing on Medi-Cal and costs the step-up. Get advice before transferring anything if long-term care is on the horizon, because the look-back is phasing back in toward 30 months by July 2028.

Will my property taxes go up if I deed my house to my son?

They can. Under R&T Code § 63.2, the parent-child exclusion applies only if the house becomes the child's principal residence within one year and the child files for the homeowners' exemption. If you keep living there and he doesn't, expect a reassessment.

Can I undo a deed to my children?

Only if they deed it back, and that's a second gift with its own reporting and reassessment questions. A revocable trust or TOD deed can be changed by you alone.

Does adding my child to the deed avoid probate?

Joint tenancy with a child does avoid probate on that house, and it brings the same gift, basis and creditor problems on the share you give. A TOD deed or funded trust avoids probate without them.

This page is general information about California and federal law, not legal, tax or investment advice for your situation. Tax figures in the example are estimates for illustration.

If you're weighing a deed to your children, talk to an estate planning attorney before you sign anything at the county recorder. More myths are in our [money myths](#) series.

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Questions about your own plan?

Ridley Law helps California families with trusts, wills, trust administration and probate from Port Hueneme, serving Ventura, Santa Barbara and Los Angeles counties. The first call is free and runs 30 minutes.

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