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February 2004 - Tax Consequences of Selling Your Home.

Interest rates are low, making right now one of the easiest times in recent memory to buy a home. Accordingly, home selling prices are rising, and maybe you are thinking about selling your home. Here are a few things to keep in mind from an income tax standpoint if you do decide to sell.

Most People Who Have Lived In Their Home Over Two Years Can Sell It Tax Free

A single person who has lived in their primary residence at least two years out of the past five years before selling can realize a gain of as much as \$250,000 without paying income tax. A married couple filing a joint return can do the same thing and realize a gain of as much as \$500,000 without paying income tax. Only the people with larger gains and who have lived in their homes the required two years will have to pay income tax on their gain.

How The Gain On The Sale Of Your Home Is Determined

The first step is to determine your basis in the home. This begins with the purchase price of the home, including any expenses associated with the purchase that you have not already been able to deduct on a previous income tax return. You can add any improvements (but not repairs) you made to the home while you owned it. You can also add fixing up expenses, including repairs, done in the last three months before selling to help the home sell. You can also add any selling expenses you pay, including but not limited to real estate commissions and home warranties offered the buyer. If you rented the home or used it for business, you will want to check with a tax professional about figuring in any depreciation that was or could have been claimed while you owned the home. Also, if you inherited all or part of the home from a spouse or some other person, this will usually have a big beneficial impact on basis that you will want to have a tax professional review before you pay estimated tax on the sale or file an income tax return.

The taxable gain is determined by subtracting your basis from the selling price reported to the IRS, usually on Form 1099-S. So, if you sell a home for \$280,000 that you have owned most of your lifetime and have a basis of \$40,000 in, your gain is \$240,000, and you will not have to report the home sale on your income tax return, nor will you owe any income tax on the gain. The title or escrow company handling the sale will make a report to the IRS that tells them that this was a qualifying sale of a principal residence, and that is the only report the IRS requires in such cases!

What If I Haven't Lived In My Home Over Two Years?

Generally, if you haven't lived in your primary residence over two years, you will have to report the sale on your tax return and pay some tax. First, determine if you have a gain using the pointers in the previous section. If you have a gain, and you are selling because your employer is moving you to a new location, you may qualify for an exception to the general rule – check with your tax professional to see if this will benefit you. If you have a taxable gain, and you lived in the home longer than one year, but less than two, you will qualify for long-term capital gain treatment, which will save you at least 5% of the amount of the gain, and maybe more. If you lived in the home less than one year, any taxable gain will be considered ordinary income, and taxed at your full tax bracket. In this case, you may want to seriously consider waiting to sell until at least the one year mark.

Important Note!

The information in this article is intended to inform you of some of the financial opportunities provided in the tax laws or elsewhere. It is not intended to give you specific advice for your personal situation. If you need such advice, please contact a qualified professional! Please call or e-mail me (doug@accuteksolutions.com) for an initial consultation to discuss your personal situation and how the tax laws might benefit you. Your first 30-minute visit is free to let you sample what we can do for you at no cost or obligation. We also invite you to submit questions you'd like to have answered in a future article!

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