

For Sale By Paul

Capital Gains & Selling Real Estate

(The information contained herein is for informational purpose only and is not in any way legal advice. If you have specific legal question, please contact an attorney.)

Tax Changes and Effects

The new capital gains law allows homeowners to avoid paying taxes on the first \$500,000 of profit if they are married or on the first \$250,000 if they are single. You must have lived in the home as your primary residence for two of the last five years.

You are allowed to use the provision as often as you like, as long as it fits in that two-year period. Any gains above the limit will be taxed at the new 20% capital gains rate - down from the current 28 %.

The old law provided a \$125,000 "one time" tax free exclusion on profits for home sellers 55 or older. This no longer is used, but those who have used it will be allowed to use the new provisions without penalty.

Under the old law you could roll over gains if you bought a more expensive house. If you sold a more expensive one and purchased a less expensive one you were liable for gains tax. Under the new law this provision is no longer in effect.

Tax Deferred Exchange - Rental Properties Time Frames

If you bought and sold a home within 1 year, any capital gains would be taxed as regular income. If bought and sold between 1 and 2 years, gains would be taxed at the long-term capital gains rate.

Filing an extension may be a consideration, talk with a CPA for advice. Needing to sell and move for specific reasons may have cause for exclusion of gains tax prior to two-year ownership.

Save Receipts

Always save receipts for home improvements in a "house file". If you don't qualify for the 2-year ownership rule, the cost of improvements can be used to offset capital gains tax you may have after the sale of your property.

People Benefited Now!

- ✓ Wanting to downsize, children have all moved out.
- ✓ Retirement and move out of the area to less expensive area.
- ✓ Job relocation from area with high property values to lower values.

One Thought!

People with rental property could sell their current home, move into their rental for two years and sell it under the \$500,000/\$250,000 provision with the same benefits.

Need Answers

If you are not sure what tax consequence you face when selling real estate, consult with a CPA or tax attorney and not a real estate agent.