

## Home Sale Taxes

One of the largest financial assets many people own is their home. A number of seniors are deciding to cash in on the equity in their home to help improve the quality of life in retirement. The question is, when they sell their home, how big a bite will taxes take out of the proceeds?

The answer, as in all things tax-related, depends on the exact situation. Here's the general rule. If you have a gain from the sale (or exchange) of your main home, you may be able to exclude from income all or part of the gain. To be eligible for an exclusion, your home must have been owned by you and used as your main home for a period of at least two years out of the five years prior to its sale or exchange. The required two years of ownership and use during the five-year period ending on the date of sale do not have to be continuous

(<http://www.irs.gov/taxtopics/tc701.html>).

How does this translate into reality? First, the home you sold must have been your primary residence for at least two out of the last five years. This means that vacation homes don't normally qualify. Additionally, if you have already excluded gains from the sale of another home within the most recent two-year period, you probably will have to report, and pay taxes on, the gain from your current home. Note that you have to meet both the ownership and the use tests in order to exclude any gain from the sale of your home.

OK, you qualify. Now, how much of the gain can you exclude? If you are single, you can exclude up to \$250,000 of gain. If you are married (filing jointly), at least one of you meets the ownership test, and both of you meet the use test, you can exclude up to \$500,000 of gain. If you did not meet the ownership and use tests, but you are selling the home because of a change in place of employment, or your health, or certain unforeseen circumstances, you may qualify for a reduced exclusion.

Remember, potentially taxable gains are determined using your basis as the starting point. Your basis in the home essentially includes the purchase price plus the cost of any improvements you made. If you have lived in the home for many years and made a number of improvements, you might not have as much taxable gain as you think.

One final point (this is the part where we issue a disclaimer). Any time you are dealing with the IRS, getting qualified tax advice is a really good idea. With most situations (this one included) there are little bits and pieces that can have an impact in your particular situation. Since taxes on \$250,000 or \$500,000 could be substantial, it would be wise to consult an expert.

**FOR ADDITIONAL RESEARCH:**

[www.bankrate.com/brm/news/real-estate/20041018a1.asp](http://www.bankrate.com/brm/news/real-estate/20041018a1.asp)

Bankrate, Inc. is the Web's leading aggregator of financial rate information. Bankrate's rate data research offering is unique in its depth and breadth. Bankrate continually surveys approximately 4,800 financial institutions in all 50 states in order to provide clear, objective, and unbiased rates to consumers. The flagship Web site, Bankrate.com, provides free rate information to consumers on more than 300 financial products.

[www.irs.gov/taxtopics/tc701.html](http://www.irs.gov/taxtopics/tc701.html)

Internal Revenue Service (IRS) provides forms, publications and other documents for individual taxpayers as well as financial practitioners. Tax topic 701 covers the sale of your home and includes several links for additional research.

[www.smartmoney.com/taxmatters/index.cfm?story=20030108](http://www.smartmoney.com/taxmatters/index.cfm?story=20030108)

Smartmoney.com is, in many ways, similar to the Kiplinger website. The website is produced in conjunction with the Dow Jones company. The companion magazine "Smart Money" is available for subscription (the site offers a free evaluation copy). This article covers a number of home sale scenarios.

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