

Tax Benefits of Selling A Home

(PLEASE NOTE: THIS ARTICLE CONTAINS GENERAL INFORMATION ON POSSIBLE TAX DEDUCTIONS AVAILABLE TO HOME SELLERS. THIS IS FOR INFORMATION ONLY AND IS NOT THE PROVIDING OF LEGAL OR TAX SERVICES. PLEASE CONSULT WITH YOUR ACCOUNTANT OR TAX ATTORNEY TO DETERMINE THE DEDUCTIONS THAT YOU MAY BE ELIGIBLE TO RECEIVE.)

Capital Gains Exclusion

According to U.S. income tax law, home owners have a possible capital gains exclusion from income tax on the sale of their “main home” and can protect the gain on if they have lived at the “main home” for 2 out of the past 5 years.

When a taxpayer has owned and used the property as their main home for at least two years out of a five-year period right before the sale, they may be able to exclude up to \$250,000 of capital gain (up to \$500,000 if married filing a joint tax return).

Each person’s unique set of circumstances and facts applied to the tax rules will generally determine whether he/she is entitled to claim the capital gain exclusion on the sale of the “main home”.

IRS Publication 523, Selling Your Home is an excellent resource and provides the rules, examples and worksheets for clarity.

Your “main home” for income tax purposes could be your house, houseboat, mobile home, cooperative apartment or condominium.

This capital gains exclusion applies only to the sale of your “main home” - Publication 523 explains rules that apply to a “main home”, including:

- determining a “main home” when a seller has more than one home
- details on excluding the gain
- possible reduced maximum gain exclusion
- business and rental use of the home
- taxable depreciation during rental period for the home

If you are home or property seller, you should contact an income tax professional to determine whether you are eligible to protect your gain on sale of your “main home” and property.

Selling costs

If, when you sell your home, you realize a taxable gain even after the exclusion, you can reduce your gain with selling costs.

Your gain is your home's selling price, minus deductible closing costs, minus your basis. Your basis is the original purchase price, plus capital improvements, minus any depreciation.

Real estate broker's commissions, title insurance, legal fees, administrative costs and inspection fees are all considered selling costs. Selling costs can also include items otherwise considered repairs—painting, wallpapering, planting flowers, maintenance and the like—provided you complete them within 90 days of your sale and provided they were completed to make the home more saleable.

Moving costs

If a new job forces you to sell your home and move, you can deduct some job-related moving costs. Your new job must be at least 50 miles from the old and you must work full time at the new work place for 39 of the 52 weeks following the move. Deductions include travel or transportation costs and expenses for lodging and storing your household goods.

To be eligible for moving costs deductions if you are self-employed, you must work full-time for at least 39 weeks during the first 12 months and a total of 78 weeks during the first 24 months after arriving at the new job location.

Check with your tax professional and state and local tax authorities to learn about home selling-related tax benefits.