OUGH!

Uncle Sam's Tax Bite After Selling Your Home

By Merv Roberts

Many seniors are looking at downsizing and selling their home that is larger than needed and eliminating the inherent cost of maintaining that home.

But then they learn that they could be facing a huge tax bill upon the sale. In some communities the value of homes has skyrocketed to such an extent that the fear of taxes has become a deterrent. So what are the tax consequences of a sale of a personal residence?

Here is a common example:
The home that you have owned and occupied as your primary residence for more than two years out of the last five prior to the sale can be sold at $1,500,000.

Sale price	$1,500,000
Less estimated expenses of sale; commissions, transfer taxes, etc	
Estimated @7%	$105,000
Net proceeds of sale	$1,395,000
Note: Any outstanding mortgage balance means nothing in the context of determining the income taxes.	
Now you need to know your cost basis in the property. There are many variables here so let's take an easy one.	
You purchased the property 25 years ago for:	$450,000
Over the years you have remodeled, made improvements	$200,000
Cost basis at time of sale is	$650,000
Realized taxable gain ($1,395,000-$650,000)	$745,000
Exclusion of gain from taxes, married filing jointly ($250,000 for each taxpayer)	$500,000
Recognized taxable gain ($1,395,000-$650,000-$500,000):	$245,000
Federal tax on long-term capital gains, est. @25%	$61,250
California taxes @9.3%	$22,725
Total estimated taxes	**$83,975**

This is a very much simplified example because there are numerous variations on how or what is "cost basis." There is no longer a deferral of the taxes due to buying another house. That went out of the tax law in May 1999.

Another scenario to remember: if you receive the property "through the hands of a decedent" either by the death of a spouse or by an inheritance, cost basis is the "fair market value" of the property on the date of death of the decedent.

In California, it is important that such property be recorded as "community property" on the deed. Far too many deeds are recorded as "joint tenancy" rather than "community." Upon the death of a spouse, only 50% of the fair market value attributable to the decedent **gets a stepped up** new cost basis when property is held in joint tenancy.

So the obvious question is how can I lower the amount of capital gain on the sale of my house?

Options are few and you need to remember that the taxes you pay are only a portion of the gain you enjoy on the sale of the property and that long-term capital gains tax rates are at a favorable rate for Federal income taxes.

First—track or build up a record backed by as many paid invoices as possible of all the improvements (not repairs) made to the property from acquisition up to date. If you have replaced the roof more than once, only the last one counts.

Even if you are not contemplating selling your home at this time, it is a good idea to have this record up-to-date while our memory is still good.

A second possibility —check out your securities portfolio for any position that would yield a loss on sale; you could sell them because the losses reduce the gains on the sale of the home.

Finally, in all these matters, it is important to consult a tax professional.

A certified public accountant, Merv Roberts has over 25 years of experience serving individuals and business. He can be reached at 408.559.3337 or email: mervr@aol.com.