



Tax Facts

This is a guide to help you understand taxes that may be associated with the purchase or sale of real estate. Always obtain financial and mortgage advice from a qualified professional. If you would like a referral, please let me know.

1. Single homeowners can exclude the entire gain on the sale of a home up to \$250,000. Married homeowners can exclude up to \$500,000 if they file a joint return for the year if either spouse meets the ownership test, both meet the use test, and neither spouse is excluding a gain from the sale of another home after May 6, 1997.

All homeowners must satisfy 3 tests. The ownership test means the seller owned the home for at least 2 years of the 5-year period before the closing date. The use test means the seller used the property as a primary residence for 2 years of that 5-year period. And the waiting period means the exclusion wasn't used during the preceding 2-year period. Sellers are not required to purchase a replacement residence, as they were under the old law.

There is no limit to the number of times the exclusion will apply. There is no cumulative feature. For example, a married seller may exclude up to \$500,000 of gain on each home sale over a lifetime, provided all other requirements are met.

2. Since January 1, 1998, gains from all capital assets held for more than 12 months are taxed at the rate of 20%, or 10% for taxpayers in the 15% tax bracket. If sellers qualify for the exclusion, the first \$250,000/\$500,000 is taxed at these capital gains rates and not at the higher, ordinary income rates.
3. Job transferees who must sell their home in less than the 2-year period can claim a percentage equal to the percentage of the 2-year requirement they have satisfied. So if they owned and used the property for only 6 months, they would be entitled to a 25% exclusion of either \$250,000 or \$500,000, depending on their situation.
4. There are other situations where reduced exclusions are allowed. Owners who sell because of a change in health are treated the same as job transferees. The exclusion is available to those who owned their home on August 5, 1997 (the day the law became effective), and sell before August 5, 1999. Those sellers should see their tax consultant for more information.
5. Owners of a rental property - or a home formerly used as a primary residence - can qualify for the exclusion even if they no longer live there on the sale date. That is, provided they meet the ownership, use and waiting period tests. Also, owners of rental properties can move into their property for 2 years, convert the rental into a principal residence, and be eligible for the exclusion.

*"If it's a new home you want, it is a **Newhouse** you get!"™*