

# THE TAX IMPLICATIONS OF SELLING YOUR HOME

**C**areful planning is the key to keeping most of the profit from the sale of your residence. Under current law, a married couple filing a joint return can exclude from income up to \$500,000 of the gain made on the sale of their principal residence. For a single person, the amount of tax-free gain can be up to \$250,000. The magnitude of this tax break makes it critical that you plan accordingly so that you qualify.

In the past, you were only eligible for a tax break if you rolled the profit of your home sale into your next residence and the sales price of the residence sold exceeded the cost of the new residence. Now, in addition to the \$500,000/\$250,000 exclusion, you no longer have to wait until you are 55 years old to elect to exclude all or part of the gain, and you can take advantage of this tax break more than once in your lifetime.

## QUALIFYING FOR THE EXCLUSION

To be eligible for the exclusion, you and your spouse (if married) must have owned and used your home as your principal residence for at least two of the five years that ends on the date of the sale. The periods don't have to be consecutive as long as they add up to two years. Short, temporary and seasonal absences count as periods of use. If you have more than one residence, only the sale of your principal home (the one you live in the most) qualifies for the exclusion. The exclusion may not be used more frequently than once every two years.

## WHAT IF YOU HAVE TO MOVE SOONER?

Special provisions apply if, as a result of some unforeseen event such as a job change, illness, death of a spouse, divorce or some other hardship, you are forced to sell your home before meeting the two-year residency requirement. Depending on your circumstances, gain may be fully excluded or the exclusion may be prorated based on the amount of time you lived in the house. For example, if for health reasons, you had to sell your home after one year, you can take half of the exclusion, which means your first \$125,000 of profit is tax-free if you're filing as a single (\$250,000 if married filing jointly).

## CALCULATING YOUR GAIN

In determining your gain, don't forget to account for qualified expenses that can be added to your home's purchase price to increase your cost basis on your original house, including the cost of the sale. Increasing your cost basis helps to reduce the gain on the sale of your house and may lower or eliminate a potential tax bill. Qualifying expenses include home improvements, such as adding a room or a new roof, and the cost of settlement fees, property inspection fees and title insurance.

Unfortunately, if your gain exceeds the exclusion amount, there is no way to avoid a tax bill. Rolling over your gain into a new residence is no longer an option. You must report your non-excludable gain on your tax return and compute your tax bill at the long-term capital gains rate, which, for most taxpayers, is 15 percent. 

