

Many Home Sellers Aren't Familiar With the Capital Gains Tax Exemption

I'm not an accountant or tax advisor, but periodically I need to explain to clients the exemption on capital gains tax enjoyed by homeowners. (You'll want to verify what I write with your accountant or tax advisor.)

Prior to 1997, the seller of one's primary residence was required to buy another home that was at least as costly as their previous home in order to avoid paying capital gains tax on the sale. Since passage of the Taxpayer Relief Act of 1997, however, that is no longer the case, although there are several important rules.

First of all, the home you sell must have been your primary residence for two of the five years preceding the date of sale, and you can only do this once every two years.

Rita and I once sold a home after owning and living in it for just 18 months, but there was no gain on the sale, so it didn't matter that we didn't qualify for the exemption.

Occupancy does not have to be continuous. You only have to have lived in the house for a total of 24 months prior to the date of sale. If you want to enjoy the exemption on a home that you previously lived in, then rented for less than five years, you may need to move into it until the total occupancy meets the 2-year requirement, if you want to enjoy the exemption.

If you're single, you are exempt from tax on the first \$250,000 of gain. For a married couple, the exemption is doubled. (For LGBT couples who own a home together, being able to marry legally brought with it this significant financial advantage.) The gain is calculated by deducting from the sale price your "basis" in the home. That basis is the sum of the price you paid for the home, the cost of improvements or additions made to it, and the costs and fees associated with purchasing and selling it. Those fees include real estate commissions, title insurance, recording fees, legal expenses, etc.

Brokerage Offers to Help You Buy Before You Sell

Perhaps you've wondered about those TV commercials by a new brokerage called Orchard offering to help you buy your replacement home without selling your current home first. That's very appealing, and Golden Real Estate has been successful at that, too, although not using the same business model.

The company, which came to Denver in January and has closed 14 purchases and 17 sales so far, was formerly called Perch. If you scroll to the bottom at Orchard.com, there's a link to their reviews, which I suggest clicking on. The 7 negative reviews give an insight that the positive reviews don't provide.

Basically, the company, based in New York, is "vertically integrat-

For example, let's say you bought a home 30 years ago for \$100,000 and you sell it for \$700,000 this year. You are married, so you qualify for the \$500,000 exemption. If you can document \$50,000 in improvements (not repairs), and your cost of selling was, say, 6%, including commissions, title insurance and fees, your basis is increased by \$92,000, raising it to \$192,000. Thus, your gain was \$508,000, but only \$8,000 of it is taxable. You will owe 15% federal plus 4.5% Colorado capital gains tax on that \$8,000. That amounts to \$1,560 tax that would be due the following April 15. That still leaves a lot of tax-free profit from the sale!

Now and then, I meet a couple, like I did last week, who are selling a home they purchased over 30 years ago, and are pushing up against a capital gains tax liability, especially if the homeowner is not married. (If the homeowner is widowed, he or she has two years to sell before the exemption drops to \$250,000.) If you are in that situation or approaching it, you could benefit from selling your home and buying another one.

It's a mistake to put your heirs on the title of your home so they inherit it. That's because in addition to inheriting your home, they also inherit your basis, which could cost them dearly when they end up selling it. It's better to put them on a "beneficiary deed" or let them inherit it through your will. In either scenario, the basis of the home is stepped up to its market value at the time of your death. The beneficiary deed is a particularly attractive option because the cost of creating and recording it is minimal, and it can be revoked at any time.

One of my clients is a home builder. He builds homes one at a time over a 2-year period, moving into and

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living in each of them for two years while building the next house. That way he is able to apply the full \$500,000 marital exemption to the sale of each house, whereas he'd owe regular income tax on his profit for each home if he sold it upon completion.

You can claim the exemption on the sale of a second home, but you need to have lived in it as your primary residence for two of five years preceding the date of sale, and, as mentioned above, you have to wait two years before taking that exemption on your other home.

If you have additional questions about qualifying for this tax exemption, don't ask me. As I said, I'm not an accountant or tax advisor. However, I can refer you to our accountant (who does our taxes) if you don't have one. I can also refer you to a real estate lawyer for a beneficiary deed.

Coming Soon: 6th Ave. West Home

Sixth Avenue West is a highly desirable neighborhood for several reasons. Located west of Union Blvd. and east of the Jeffco Fairgrounds, the homes have Golden addresses but are in unincorporated Jefferson County. At the center of the neighborhood is Kyffin Elementary School, widely regarded as one of the best in Jeffco. There's also a community swimming pool, yet there is only a voluntary community association with \$35 annual dues — no HOA. Next week on this page, I'll be featuring an updated 4-bedroom ranch on 0.27 acres backing to a greenbelt and priced under \$700,000.

Walk to CSM & Downtown Golden From This Townhome

This townhome at **707 20th Street** has been updated inside and out. It has all new HardiePlank siding, new windows and skylights, a 3-year-old roof, a new wraparound deck that's great for entertaining, two patio areas with lots of planter boxes, and a Juliet balcony off the master bedroom. The interior is loaded with upgrades, including stainless steel appliances and granite countertops in the eat-in kitchen. There are new hardwood floors throughout the main level. All the bathrooms are new with beautiful tile, granite and glass. All three bedrooms have en suite bathrooms and California Closets. On those cold winter nights, cozy up to the gas fireplace in the living room. The sunroom (used as an office) has all new skylights with a tile floor. The dining room has double sliding glass doors that lead out to the large wraparound deck. Best of all, while nestled in the woods of Kinney Run, it's within walking distance of the Colorado School of Mines and downtown Golden! The listing price includes all furniture. Take a narrated video tour at www.GoldenTownhome.info, then call your agent or **David Dlugasch** at **303-908-4835** for a showing.



ed," meaning that they have their own mortgage company, title company, etc. They are backed by a venture capital firm which provides the working capital to purchase your home if they don't sell it first.

They operate like the iBuyers I wrote about 3 times in 2019 (search for them at JimSmithColumns.com). They make a market-based offer to purchase your home, then reduce that offer based on inspection, and they charge a 6% fee (in lieu of a commission).

Also, you pay rent for your new home, which you don't actually buy until *after* your home closes. If it doesn't close in 90 days, they buy it at their low-ball price. Their agents work on salary, not commission.

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