

What Is Your Capital Gains Tax Liability When You Sell Your Home?

First, a disclaimer. I am not a tax professional, financial planner, or accountant. I sell real estate, not tax advice. However, I can tell you what I know about the above topic and urge you to verify what I say with a tax preparer or accountant.

The inspiration for this column was a phone call I received from a reader who wanted to confirm that she has to buy a new house within two years in order to avoid paying capital gains on the sale of her primary residence.

Although this hasn't been the case since the Taxpayer Relief Act of 1997, many homeowners appear to be unaware that the rules have changed, given how often I get this question. Nowadays no capital gains tax is due on the sale of your primary residence unless your gain exceeds \$250,000 for an individual or \$500,000 for a married couple. (Note: It must have been your primary residence for 2 of the 5 years prior to closing.)

That exemption has been in place now for 20 years. Prior to that, homeowners were required to reinvest in another primary residence in order to defer their capital gains tax until they finally sold without buying a new home.

Your "gain" is calculated from a combination of your purchase price plus any capital improvements you made, plus the cost of selling the house. That's called your "basis."

So, let's say that you bought a home 40 years ago for \$50,000, and you've made another \$50,000 of capital improvements (new garage, new kitchen, new bathrooms, etc.). You just sold the house for \$500,000, with a total cost of selling (commissions plus title insurance and other fees) of \$25,000. Your "basis" is \$125,000, so your gain would be \$375,000. If you're married, you have a

\$500,000 exemption, so you owe no capital gains tax at all. If you're single, you have a \$250,000 exemption, so you'd pay long-term capital gains tax on \$125,000 of your net gain. That's a federal plus state tax liability of under \$25,000. If you had no mortgage, your proceeds from the sale was about \$470,000, and paying \$25,000 in capital gains tax is definitely doable. Yes, I realize you'd prefer to pay nothing, so go ahead and marry that cute 75-year-old you've been dating before you sell!

If you sell a second home or an investment property, you do pay a tax on your full capital gain, but you can defer that tax liability by purchasing a replacement property under Sec. 1031 of the IRS Code. But this is only a *deferral*. Your "basis" in your current property becomes the basis for the replacement property, so you do eventually have to pay the tax (unless the tax law changes). Meanwhile, a 1031 exchange allows you to re-invest pre-tax dollars in a new piece of real estate.

Your purchase under Sec. 1031 does have to be for real estate, but it can be any kind of real estate. I once had an \$800,000 capital gain on the sale of an office building in Denver. Using a 1031 exchange, I invested \$600,000 of that gain in a residential rental property and paid capital gains on only \$200,000. However, when I sold that rental several years later without doing another 1031 exchange, I had to pay tax on that deferred gain, although it was reduced by the additional investment and cost of sale.

To do a 1031 exchange, you need to hire a "qualified intermediary," who holds the proceeds from the sale of your "relinquished" property until you purchase your "replacement" property. This

service costs upwards of \$1,000, but without it, you can't do a 1031 exchange, so it's probably worth it. I would be happy to recommend the company I used for that process.

On a related matter, let me share some tax advice I received regarding passing your property on to a child or other beneficiary. (Again, I'm not a tax advisor, so confirm this with yours.) I was told you should *not* put your child

or beneficiary on the title of your home as a "joint tenant with right of survivorship." Rather, you should *will* the home to that beneficiary. Why? Because when real estate is inherited, the basis is "stepped up" to the current market value at the time of your death. If the beneficiary is a joint tenant, he inherits your much lower basis and could owe significant capital gains tax when it comes time for him or her to sell it.

REAL ESTATE TODAY



By **JIM SMITH, Realtor®**

Just Listed: Golden Townhome With Garage



This townhome at 17237 W. 12th Ave. is in the Skyline Townhomes subdivision, located just across the roundabout from King Soopers, within the City of Golden. On the top floor are two master suites and a laundry (machines included). The middle floor is one large open area with kitchen, living room and dining room on hardwood floors, plus a half bath and balcony. View more pictures and a narrated video tour of this listing at www.GoldenTownhome.com. Open house is **Saturday, 11-3 and Sunday, 11-2.**

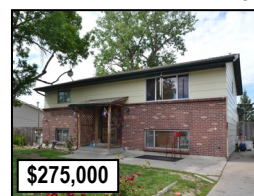
Arvada Ranch Just Listed by David Dlugasch

This beautifully updated sprawling ranch at 13405 W. 82nd Ave. features a new custom kitchen with a large island, an abundance of custom cabinets, hardwood floors, custom-designed great room with vaulted ceilings, beautiful views of the mountains and downtown, and excellent school district. The home sits on almost a half-acre with a large back patio with a hot tub and terraced garden with a meandering water feature. It has 4 bedrooms (one nonconforming) and 2½ baths. The oversized 3-car garage has lots of extra storage space. Room to park an RV too! **Open Sat., 1-4.** Call David at 303-908-4835.



Video Tour at www.ArvidaHome.info

Adams County Home Listed by Susan Dixon



Located at 7649 Conifer Road, this home is a great value. This fixer upper is a great fit for an investor or a buyer with a tool belt. The home needs TLC to make it your own. The roof and water heater are newer and the home has central air conditioning. The home also has a large backyard and huge concrete pad for RV parking or room for the addition of a garage. Come take a look! Or you can call Susan Dixon at 720-982-0803 for a private showing.

Buy Your July 4th Raffle Tickets at Our Office

For decades, the Golden Lions Club has hosted an all-day party in Golden's Lions Park on July 4th, capped by the City's fireworks display after dark. Throughout the day, between band performances, tickets are drawn for about 200 prizes donated by local businesses. You don't have to be present to win. The top prize is \$1,000 cash. As a bonus, the back of each ticket is a coupon with a discount at different restaurants, bars & shops! Tickets are \$5 for a book of 6. You can buy tickets at our office, or look for Lions selling tickets weekends at King Soopers and elsewhere. Proceeds benefit the Lions Club's Community Betterment Fund.



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