

Tax Tips You Can Use



Selling your home
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First Published in the Jacksonville Review Sept. 2005

Many people are confused about the rules regarding the profit from selling their home. In this article, I hope to clarify the basic rules. Real property is land, apartment buildings, commercial buildings, and homes—single or multiple. There are three categories of real property. They are 1) business property, such as a commercial building, a retail shop, a factory, or a rental house; 2) investment property like land or a second home and 3) your principle residence. When business or investment property is sold, taxable capital gains can be generated. Up to 1997, that was also true for personal residences. Congress passed a law starting on 5/7/97 that allowed an exclusion of up to \$250,000.00 per taxpayer of gain on a personal residence.

The 1997 law defined the exclusion rules, defined exceptions and how to handle them and repealed two other laws. The repealed laws were the rule that allowed gain from one home to be rolled into the next home and the law that allowed homeowners over 55 to exclude up to \$125,000.00 of gain on their home sale. Now each sale of a personal residence is treated separately, even if you sell one home to buy another.

The exclusion rules are a wonderful tax break for homeowners. If you live in and own your home for 730 days (two years) of the last five years, you can exclude up to \$250,000.00 gain per taxpayer. That is \$500,000.00 for a joint return. The days do not have to be continuous or the same days. As an example, you could rent house A for all of 2001, buy it on Jan 1, 2002 and live in it all of 2002. If you continue to own house A but leave it empty and live elsewhere for 2003, 2004 and 2005, then sell the house in late 2005, you can exclude \$250,000.00 of gain (per taxpayer) because you lived in it for two of the last five years and owned it for two of the last five years. This is a simple example and many people have complications such as a marriage or divorce, a home office or converting it to and from a rental house. You should see a tax advisor before you sell your home to ensure you meet the qualifications to exclude some or all of the gain.

Congress also allowed for exceptions to the two year rules. Many people

buy a house planning to live in it many years, but their circumstances change. If the reason for selling the home was due to a change in place of employment, health or unforeseen circumstances, the taxpayer may qualify for a reduced exclusion. The exclusion amount is \$250,000.00 times a percent that is equal to the number of days the house qualified as the principle residence divided by 730. As an example, if the house was owned for 365 days, the exclusion per taxpayer would be 50% (365/730) of \$250,000.00 or \$125,000.00. The exception rules contain many examples of unforeseen circumstances, however they do not include selling the house because you found one that you like better or selling to buy a bigger home because you got a promotion.

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The fine print: This article is for information only. Please see your tax professional for questions about your individual tax situation.