

Capital Gains on Home Sales

By Valerie Demerski

If you are selling real estate it is important to understand the tax implications of your sale, particularly regarding capital gains.

Your home is considered a capital asset. When it is sold, the gains from the sale, after adjustment for the selling costs incurred, are taxable as capital gains. The amount of tax you must pay is dependent on the adjusted sale price of your home, the length of time you owned the home and whether or not the home was used as your primary residence.

Here's a breakdown of the current capital gains taxes based upon the length of home ownership:

If you buy and sell your home within a year, the capital gains are considered short-term and are taxed at the ordinary income rate.

If you sell your home after one year of ownership, but before two years of ownership, the gains will be taxed at the long-term capital gains rate, which is lower than the ordinary income rate.

If you own your home for two years, and if the home was your primary residence two of the past five years, you can avoid paying taxes on part of the sale price. Married couples will not be taxed on the first \$500,000 of profit, while single individuals are not taxed on the first \$250,000. Any gains above these limits will be taxed at the long-term capital gains rate.

If you don't qualify for the two-year tax rule, you may be able to reduce the taxable capital gains by deducting the cost of qualified home improvements from the sale price. You'll need valid receipts of improvement-related costs in order to take advantage of this incentive.

There are sundry other implications regarding capital gains on selling real estate. To learn more about special rules and exceptions that may apply to your particular situation, consult your local realtor, CPA or tax attorney.

Since the appraisal has such a great impact on the determination of the property's value, make sure to find someone who is well-qualified for performing the appraisal. Your Realtor can recommend a licensed or certified appraiser who is experienced and knowledgeable about the value of properties in your area.

Overall, real estate appraisals are an integral component in understanding a home's value.