



How to Avoid Paying the Capital Gains Tax

When you sell your home, the profit you make can be subject to the capital gains tax. Understanding how the capital gains tax laws operate may help you pocket more of the profits. While it's important to talk to your tax advisor about your specific situation, here are a few guidelines to help you get started.



Capital gains tax rates are determined by a combination of:

- The profit from the sale of your home
- Your overall income (your tax bracket)
- The length of time you held your investment (in this case, your home)

When selling your primary residence, you may be permitted to exclude up to \$250,000 profit from the sale on your tax return. If married and filing a joint return, you may be able to exclude up to \$500,000. These exclusions are allowable only if you haven't excluded an earlier gain within the same two-year period ending on the sale date of your current home.

To qualify for these exclusions you need to have lived in your home for a minimum of two years, but they don't have to be consecutive years.

If you have lived in your home for less than two years, you may still be able to exclude a portion of the gain, which is based on the amount of time you actually lived in your home. If the profit from the sale of your home exceeds the allowable limit, the difference is treated as a long-term capital gain and is taxed at a maximum of 15% (and may be lower if your taxable income is low enough).

Now for a little math. Capital gains are calculated by the net selling price (sale price minus real estate commissions and closing costs) minus the adjusted basis (original cost plus capital improvements).

Capital improvements may help reduce your capital gains tax liability by increasing your adjusted basis. These include improvements you make to your home which add to its value, prolong its life, or adapt it to new uses for example room additions, decks, new flooring, etc. Don't forget to keep all receipts for purchases that may qualify for a capital improvement.

Your home is one of the largest investments you will ever make. Knowing how the capital gains tax laws operate can reward you with greater profits when it comes time to sell. Be sure to talk to your tax advisor for specific advice on how to maximize your investment.

If you have any questions, please contact:

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