

Tax Implications of Selling a Home

Selling a home can have a major impact on your federal and state tax returns.

Check with your tax consultant on the factors that may affect taxes resulting from the sale of your home. For example:

- Whether you purchased the home or acquired it by gift or inheritance
- Whether you used your home partly for business or rental
- Costs associated with selling your home
- Home improvements or additions, which may help to offset capital gains
- Gain from the sale of a prior home on which tax was postponed prior to the enactment of the federal Taxpayer Relief Act of 1997

The federal Taxpayer Relief Act of 1997 says when you sell your home you can keep, tax free, capital gains of up to \$500,000 if you are married filing jointly or \$250,000 for single taxpayers, or married taxpayers who file separately. To qualify for the exclusion, you must have used the home as your principle residence for at least two of the prior five years. It is not a one time tax exclusion. You can use the exclusion as often as you meet the qualifications.

The federal Internal Revenue Service Restructuring and Reform Act of 1998 further clarified the law and says you can prorate the \$500,000/\$250,000 exclusion (not your specific gain) if unforeseen events, such as a job change, illness, or some other hardship forced you to sell before you meet the two-year residency requirement.

Many, but not all federal tax benefits are also available from state tax departments. Be sure to discuss your move with a tax professional familiar with state tax rules, especially if you are moving from one state to another.

-Adapted from the MetLife Consumer Education Center with assistance from the National Association of the Remodeling Industry.

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<http://new.realtor.com/Basics/Sell/Closing/Tax.asp>