Tax Benefits When You Sell

1. As the time nears to pay your dues in Club America, your home offers financial shelter from what otherwise could be a taxing expense -- especially if you've sold your home when your tax returns are due.

The Taxpayer Relief Act of 1997, credited with having a significant role in keeping the real estate sector ahead of the rest of the economy, is perhaps the best tax shelter your home provides.

Generally, the federal tax law says when you sell your home, if you qualify, 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.

Under the law, to qualify for the $500,000/$250,000 exclusion, the home must have been your primary residence for at least two of the prior five years.

The exclusion is not a one-time deal, but a benefit you can use again and again, theoretically every two years -- provided you qualify each time by meeting the owner-occupied-two-out-of-five-years requirement.

If, for example, you have two homes and live in one for two years, sell it and then live in the other for the next two years and sell it, both sales qualify for the exclusion.

Special provisions are available if, through some unforeseen event such as a job change, illness, death of a spouse, divorce, disaster, war or some other hardship, you are forced to sell before you meet the two-year residency requirement.

For qualifying unforeseen circumstances, you can prorate the $500,000/$250,000 exclusion (not your specific gain) if you are forced to sell early. That means if you only live in your home a year (half the two-year requirement) before you are forced to sell because of some qualifying unforeseen event, you can exclude from taxes up to $250,000 (half the exclusion) in capital gains if you are married and file jointly or $125,000 for separate and single filers.

One unforeseen event covered by the provision is the September 11, 2001 acts of terrorism in New York, Pennsylvania and Washington, D.C. Sellers are eligible to prorate the exclusion provided:

1. A spouse, home co-owner, or person living with the taxpayer was killed by the attacks.

2. The taxpayer's principal residence was damaged.

3. The taxpayer or a person listed in (1) became eligible for unemployment compensation, or

4. The taxpayer or a person listed in (1) had a change in employment or self-employment that resulted in the taxpayer's inability to pay reasonable basic living expenses for the household.

Selling Costs

If, when you sell your home, you realize a taxable gain even after theexclusion, you can reduce your gain with selling costs.

Your gain is your home's selling price, minus deductible closing costs, minus your basis. Your basis is the original purchase price, plus capital improvements, minus any depreciation.

Real estate broker's commissions, title insurance, legal fees, administrative costs and inspection fees are all considered selling costs. Selling costs can also include items otherwise considered repairs -- painting, wallpapering, planting flowers, maintenance and the like -- provided you complete them within 90 days of your sale and provided they were completed to make the home more saleable.

Moving Costs

If a new job forces you to sell your home and move, you can deduct some job-related moving costs. Your new job must be at least 50 miles from the old and you must work full time at the new work place for 39 of the 52 weeks following the move. Deductions include travel or transportation costs and expenses for lodging and storing your household goods.

To be eligible for moving costs deductions if you are self-employed, you must work full-time for at least 39 weeks during the first 12 months and a total of 78 weeks during the first 24 months after arriving at the new job location. Check with your tax professional and state and local tax authorities to learn about home selling-related tax benefits.