Selling your home? Consider these tax implications

Spring and summer are the optimum seasons for selling a home. And interest rates are currently attractive, so buyers may be out in full force in your area. Freddie Mac reports that the average 30-year fixed mortgage rate was 4.14% during the week of May 2, 2019, while the 15-year mortgage rate was 3.6%. This is down 0.41 and 0.43%, respectively, from a year earlier.

But before you contact a realtor to sell your home, you should review the tax considerations.

Sellers can exclude some gain

If you're selling your *principal* residence, and you meet certain requirements, you can exclude up to $250,000 ($500,000 for joint filers) of gain. Gain that qualifies for the exclusion is also excluded from the 3.8% net investment income tax.

To qualify for the exclusion, you must meet these tests:

1. **The ownership test.** You must have owned the property for at least two years during the five-year period ending on the sale date.
2. **The use test.** You must have used the property as a principal residence for at least two years during the same five-year period. (Periods of ownership and use don't need to overlap.)

In addition, you can't use the exclusion more than once every two years.

Handling bigger gains

What if you're fortunate enough to have more than $250,000/$500,000 of profit when selling your home? Any gain that doesn't qualify for the exclusion generally will be taxed at your long-term capital gains rate, provided you owned the home for at least a year. If you didn’t, the gain will be considered short term and subject to your ordinary-income rate, which could be more than double your long-term rate.

Other tax issues

Here are some additional tax considerations when selling a home:

Keep track of your basis. To support an accurate tax basis, be sure to maintain thorough records, including information on your original cost and subsequent improvements, reduced by any casualty losses and depreciation claimed based on business use.

Be aware that you can’t deduct a loss. If you sell your principal residence at a loss, it generally isn’t deductible. But if part of your home is rented out or used exclusively for your business, the loss attributable to that portion may be deductible.

If you’re selling a *second* home (for example, a vacation home), be aware that it won’t be eligible for the gain exclusion. But if it qualifies as a rental property, it can be considered a business asset, and you may be able to defer tax on any gains through an installment sale or a Section 1031 exchange. Or you may be able to deduct a loss.

Your home is probably your largest investment. So before selling it, make sure you understand the tax implications. We can help you plan ahead to minimize taxes and answer any questions you have about your situation.