

Home Sale Tax Breaks – Find out more!

Are you filing jointly with your spouse or as a single tax payer?

How much financial gain have you made from the sale?

According to the Internal Revenue Code Section 121, when you sell your home you can keep tax-free capital gains of up to:

- \$ 500,000 if you are married and filing jointly and
- \$ 250,000 if you are filing as a single taxpayers

However, you must have used your home as your principal residence for at least two of the five years prior to the sale. What's more, you can benefit from the exclusion as many times as you meet the qualifications. No longer only once in a lifetime!

If you have sold the house before you met the two year residency requirement due to unforeseen events; such as a job change, illness or some other hardship, you can prorate the \$250,000 or \$500,000 exclusion.

This information is based on the clarification received from The federal Internal Revenue Service Restructuring and Reform Act of 1998.

If you are a rental property owner, you can defer some capital gains tax if you purchase another rental property and qualify for a 1031 exchange.

Be aware that selling a home alone may not give you a lot of savings, especially if you are in the market for a moderately priced home. Based on a 2004 law, a single person will receive a standard deduction of \$ 4,850, and the standard deduction for a married taxpayer is \$ 9,700. This tax law allows you to claim either the use of the standard deduction or itemized deductions, whichever is higher. So, your itemized deductions reduce your taxable income only when they are more than the standard deduction.

This information is not meant to reflect state laws or recommend strategies, but merely to promote awareness about possible tax benefits. Always consult with your tax professional about the details.

So, the next time you meet with your professional tax consultant, ask how you can claim a tax break and gain optimal benefit from selling or renting your home.

GLOSSARY OF TAX TERMS

Here are some of the tax terms you may want to read before you meet with your tax consultant:

- **Tax Credit:** A tax credit is a dollar-for-dollar reduction in the amount of tax that is due. A tax credit is more valuable than a tax deduction of the same amount. An income tax credit is one that directly reduces the amount of income tax paid by offsetting other income tax liabilities.

- **Tax Rate:** The rate at which the property is taxed is usually a percentage and is shown per hundred dollars of the property's value.
- **Assessment Ratio:** This ratio is a percentage of your home's fair market value that each assessor uses to determine the property's assessed valuation. This ratio may vary from county to county.
- **Notice of Revision:** This is a notice mailed to the property owner after a property has been reassessed.
- **Uniformity:** This is a legal principle that governs property tax assessments. It states that all property in a given area must be assessed at the same level. This principle of uniformity is the basis for many successful assessment appeals.
- **State Multiplier:** This is the state equalization fraction, a number the state assigns to each county, depending on the assessment ratio the county uses to calculate assessed valuation. The multiplier either raises or lowers the assessed valuation to the state-mandated level. The multiplier ensures that taxpayers in each of the state's counties pay the proportionate amount in property taxes.
- **Tax Deed:** This is a type of deed used to convey title after the real property is sold at an auction by public authority for non-payment of taxes, or the instrument is used to convey legal title to property sold by a governmental unit for non-payment of taxes.
- **Tax Lien:** This is a claim against real estate property for a specified amount of unpaid taxes. The government has the right to enforce a claim against the property of a person owing taxes.
- **Tax Sale:** This is a public sale of property by a government authority as a result of non-payment of taxes.

"All information in this report is deemed reliable, but not guaranteed."

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