

Home Sellers Can Benefit From Taxpayer Relief Act

By J. Lennox Scott

With tax season upon us, now is good time to discuss some of the tax benefits of homeownership, including the Taxpayer Relief Act of 1997. Tax and relief are so rarely used together, but in this case it's true and most homeowners can benefit from it at some point. What this act refers to is the exclusion of capital gains on the sale of a principal residence, which simply put, is the tax benefit associated with selling a home.

In 1997, legislation was passed that fundamentally changed the treatment of gain on the sale of a residence. The Act replaced a previous provision that benefited few and frustrated many. In its place amended Code Sec. 121 was created, stating that an individual may exclude from income up to \$250,000 of gain realized on the sale or exchange of a residence. The exclusion increases to \$500,000 for joint filers. Furthermore, the exclusion also makes it easier to qualify for certain itemized deductions and various credits and other tax breaks. For any gains incurred above the \$250,000 and \$500,000 limits homeowners are taxed at the 20% capital gains rate.

In general terms what this means is that if you and your spouse/significant other purchased a home for \$300,000 and sold it five years later for \$600,000, you would be exempt from capital gains because the gain does not exceed the established \$500,000 limit for joint filers. A common misconception is that in order to avoid paying capital gains you must rollover the gain into another, more expensive residence. This is not true. One of the primary benefits of the Act of 1997 is that it allows homeowners to choose the type of housing they want without worrying about the tax consequences. It is also designed so that house sellers can take advantage of the tax benefit once every two years, unlike the onetime exclusion of the previous Act.

With all these benefits are some guidelines that must be followed. For example, in order to qualify for exclusion you must have owned and occupied the residence for a minimum of two of the last five years from the date of sale. Properties intended solely for renting are exempt from this particular tax benefit, however often times rentals and vacation homes can qualify if they have served as a primary residence for the home owner during the five year allotment.

Additionally, the exclusion from capital gains tax cannot be used more than once every two years. However, if joint filers, such as a married couple, found the right bargain each time, they could potentially make up to a half-million dollar profit every two years by buying and selling their personal residence.

The whole point of the Taxpayer Relief Act of 1997 was to streamline the system, giving homeowners greater flexibility without having to make home buying/selling decisions based primarily on tax considerations. For more information about capital gains and the federal tax bill, consult a tax advisor or go to www.irs.gov

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