

Saving TAXES when Selling Your Home

Today may not be an ideal time to be placing your home on the market, but regardless of market conditions, if you are planning to sell your home now or when you retire, you need to be aware of some of the significant tax changes that have happened in the past fifteen years.

The **capital gain exclusion** on the sale of our primary residence allows a married couple (who file jointly) to exclude up to \$500,000 of the realized capital gain. To be eligible for the exclusion, all of the following conditions must be met:

- Either spouse has owned the house for at least two years;
- Both spouses have lived in it for two years; and
- Neither spouse has used the exclusion in the past two years.

Until January 01, 2008 a single filing taxpayer was generally only allowed to exclude up to \$250,000 of realized gain on the sale of a primary residence. This became a real problem for surviving spouses. IRS regulations state that an unmarried surviving spouse can only file a joint return for the year in which the death of the spouse occurred. Therefore, unless the sale of their primary residence occurred before the end of the year, the surviving spouse would lose \$250,000 of the gain exclusion. The Mortgage Relief Act of 2007 liberalized the home gain exclusion for surviving spouses and, assuming that all the eligibility conditions are met, a surviving spouse may now be able to take advantage of the larger (\$500,000) exclusion as long as the sale of the residence takes place **within two years** of the spouse's death. Note that the two year period starts on the deceased spouse's date of death. This means the sale of the home must occur not more than 24 months from the date of the spouse's death.

As long as you continue to meet the requirements, the capital gain exclusion is now allowed every time you sell a personal residence. Generally, this means that you can use the exclusion no more than once ever two years. This can create a significant tax savings as you retire and consider that vacation home you bought many years ago. If you sell your current home (taking advantage of the capital gain exclusion) and move into your retirement home, you will be able to take advantage of the exclusion again after two years.

All of this can be a bit complicated and for that reason I would suggest that you consult with a team of experts. A Real Estate agent, CPA, and Financial Advisor can be valuable resources to help you navigate the turbulent waters in this unsettled economy.

The author, Robert Wier is a Registered Investment Advisor Representative. He has been in the insurance and financial services field for over 30 years and holds security licenses in Michigan and California.

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