

Selling Your Home?

The Tax is Simpler – But Not Lower

The best way to begin understanding the law is to forget everything you knew about the ‘old’ law, because the new law is *completely* different.

If you sold your principal residence on or After May 7, 1997, the gain is taxed under the new capital gains rates, with one twist: the first \$500,000 (for married couples; \$250,000 for singles) of gain is excluded from the capital gains tax.

This means:

- ♦ Anyone who sells a home is entitled to the \$500,000 exclusion – not just those 55 and older. You can use this new exclusion if you used the old \$125,000 exclusion. Pretty cool.
- ♦ The home must have been your primary residence for at least two of the five years before the date of sale. You do not have to live in the home when you sell it. The old law was three-in-five. Cool.
- ♦ You can claim \$500,000 even if just one spouse owns the home, though both must meet the two-in-five rule. If you do, even divorced or separated spouses can use the exclusion – even if they’ve moved out. Very cool.
- ♦ You can use the new \$500,000 exclusion every time you sell your primary residence (but no more than once every two years). The old law let you use the exclusion just once, and only up to \$125,000. Under the old law, if you only used, say, \$75,000, you forfeited the other \$50,000. Now you get to use the full \$500,000 every time you sell your home. Extremely cool.
- ♦ The exclusion will be prorated if unforeseen events such as a job change or illness, make you unable to meet the two-year requirement.
- ♦ If you signed the contract to sell your home between May 7 and August 5, 1997, you can choose (a) the old law’s option of deferring the gain, (b) the old law’s “age 55 or over one time exclusion” option or (c) the new law’s \$500,000 exclusion- whichever works best for you. Totally cool.
- ♦ Only one piece of fine print: If you converted rental property to a principal residence, you can’t use the new \$500,000 exclusion on gain attributable to depreciation taken after May 6, 1997. No biggie.

The bottom line from all this: Assuming that your gain is \$500,000 or less, you can now rent your next home or buy a less expensive home, without incurring any capital gains tax-*regardless of your age*.

Now That’s Nice!!

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