

QUICK NOTES

Federal Taxation of Homeownership:

TERMINOLOGY

Adjusted Basis – Original purchase price plus costs of acquisition (closing costs) plus costs of capital improvements.

Amount Realized – Gross sales price minus allowable expenses of sale. Basis – The original purchase price of the property.

Capital Gain – Profit made on the sale of real property. Not to be confused with equity.

Capital Improvement – Those improvements that will permanently increase the value of the property. Does not include: Repairs, Decorating cost or Maintenance.

Examples:

Replace the roof = capital improvement vs. replace a few shingles = maintenance.

Replace a hot water heater = capital improvement vs. replacing the hot water heater element = maintenance.

Municipal and private HOA assessments such as street paving, curb and gutter, replacement of siding is typically a capital improvement.



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IMPORTANT FACTS

- The primary benefit of homeownership on federal taxes is the ability to deduct mortgage interest and property taxes.
- Discount Points – Are typically deducted as mortgage interest in the year in which paid and therefore do not impact capital gains.
- New loans and loan payments only impact equity and not capital gains.
- A Taxpayer can maintain up to two residences for tax purposes.
- To Qualify for special capital gains tax treatment the homeowner must have both owned and occupied the home for at least two out of the previous five years. Special Capital Gains Tax Treatment is:
 - The first \$250,000 of capital gains is tax-free for a single taxpayer.
 - The first \$500,000 of capital gains is tax-free if married and filing jointly.



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