Building Wealth
REAL ESTATE

Top 3 Secrets to Avoiding Capital Gains Taxes

You should consult a qualified CPA when making important financial decisions.

1 Re-Take a Homeowner's Exemption.

HERE'S HOW IT WORKS: If you have lived in your home for 2 of the last 5 years, $250,000 of capital gains profit is exempt (tax free) if you are single. You are also exempt for up to $500,000 of capital gain profit taxation if you are married. What is not widely known is that current tax law allows you take this exemption more than once. Let's say you used a $500,000 (married) exemption on the home you lived in when you sold it, then bought another home which have lived in for 2 or more of the last 5 years. If you had a sizable capital gain, you can sell that home and have another $500,000 capital gains tax exemption. This type of exemption used to be a once in a lifetime exemption, but that changed in 1997.

2 Deduct Improvement Costs.

HERE'S HOW IT WORKS: Over years of owning a home, most people have put a lot of money into upgrading it over time. If you remodeled the kitchen, baths, added landscaping, those costs are deductible against your capital gains tax base. Let's say you and your spouse bought a home for $500,000 (your cost basis). You've lived in it for 7 years. During that time, you've remodeled parts of your home which cost you $100,000. That now makes your cost basis $600,000. You decide to sell your home and you fetch a price of $1,100,000 from a buyer and close the sale. This is not an uncommon scenario in the Bay Area. You then claim your homeowner exemption of $500,000. That leaves you with a net price of $600,000. If your cost basis is $600,000 and your net is $600,000, no capital gains tax would be due.

3 Add One of Your Children Onto the Title.

HERE'S HOW IT WORKS: OK, there are risks with this one. Once you add a child onto title, they become a legal owner. They can take half your home so make sure you are on good terms and they are not likely to go sideways on you. The other risk is timing. Once you add a child, you can trigger a property tax re-assessment. If you've owned the home for a long time and have a low Prop 13 tax base, a portion of the property may be re-assessed. It's important if you're going to make this play that you dovetail it to coincide with the date of selling. We certainly can recommend top attorneys and CPA's from our rolodex (OK hard drive) to make sure you are covering all your bases before you take any action.

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