
What Are the Tax Issues Associated With a Gain or Loss on a Primary Residence?

You may be able to exclude from income any gain up to \$250,000 for a single taxpayer and \$500,000 for a joint return. To exclude the gain, you must have owned and lived in the property as your main home for two of the five years prior to the date of the sale. If you lose money on a sale, the loss is not tax deductible.

Your Adjusted Basis

A dollar amount known as your adjusted basis determines whether you experience a gain or a loss. If you purchased or built your home, your initial cost basis typically is the cost to you at the time of purchase. If you inherit a home, the cost basis is the fair market value on the date of the decedent's death or a later valuation selected by a representative of the estate.

The formula for determining your gain or loss is as follows:

Selling price - Selling expenses = Amount realized

Amount realized - Adjusted basis = Gain or loss

The cost basis may be adjusted over time due to the following conditions:

- Additions and other improvements that have a useful life of more than one year and that add to the value of your home. These can include a garage, decks, landscaping, a swimming pool, storm windows and doors, heating and air conditioning systems, plumbing, interior improvements and insulation. Note that repairs that keep your house in good condition but do not significantly enhance value, such as fixing gutters, repainting, or plastering, do not affect the cost basis.
- Special assessments paid for local improvements.
- Amounts spent to restore damaged property.
- Payments for granting an easement or right-of-way.
- Depreciation if the home was used for business or rental purposes.
- Others as determined by the Internal Revenue Service (See Publication 523 Selling Your Home).

The definition of a "main home," according to the Internal Revenue Service, includes a private residence, condominium, cooperative apartment, mobile home or houseboat. It is to your advantage to maintain records of a home's purchase price, purchase expenses, improvements, additions, and other issues that may affect the adjusted basis.

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