If you’re selling your home, don’t forget about taxes

Traditionally, spring and summer are popular times for selling a home. Unfortunately, the COVID-19 crisis has resulted in a slowdown in sales. The National Association of Realtors (NAR) reports that existing home sales in April decreased year-over-year, 17.2% from a year ago. One bit of good news is that home prices are up. The median existing-home price in April was $286,800, up 7.4% from April 2019, according to the NAR.

If you’re planning to sell your home this year, it’s a good time to review the tax considerations.

Some gain is excluded

If you’re selling your *principal* residence, and you meet certain requirements, you can exclude up to $250,000 ($500,000 for joint filers) of gain. Gain that qualifies for the exclusion is also excluded from the 3.8% net investment income tax.

To be eligible for the exclusion, you must meet these tests:

- **The ownership test.** You must have owned the property for at least two years during the five-year period ending on the sale date.
- **The use test.** You must have used the property as a principal residence for at least two years during the same five-year period. (Periods of ownership and use don’t need to overlap.)

In addition, you can’t use the exclusion more than once every two years.

Larger gains

What if you have more than $250,000/$500,000 of profit when selling your home? Any gain that doesn’t qualify for the exclusion generally will be taxed at your long-term capital gains rate, provided you owned the home for at least a year. If you didn’t, the gain will be considered short term and subject to your ordinary-income rate, which could be more than double your long-term rate.

Here are two other tax considerations when selling a home:

1. **Keep track of your basis.** To support an accurate tax basis, be sure to maintain complete records, including information on your original cost and subsequent improvements, reduced by any casualty losses and depreciation claimed based on business use.
2. **Be aware that you can't deduct a loss.** If you sell your principal residence at a loss, it generally isn't deductible. But if a portion of your home is rented out or used exclusively for your business, the loss attributable to that part may be deductible.

If you're selling a *second* home (for example, a beach house), it won't be eligible for the gain exclusion. But if it qualifies as a rental property, it can be considered a business asset, and you may be able to defer tax on any gains through an installment sale or a Section 1031 like-kind exchange. In addition, you may be able to deduct a loss.

For many people, their homes are their most valuable asset. So before selling yours, make sure you understand the tax implications.