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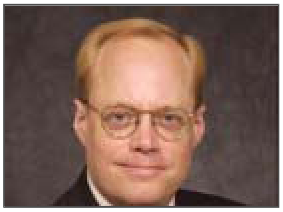

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Tax Tips For Selling Your Home

Image via ehow.com

Although the IRS needs money, it does a good job of trying to publicize ways people can save on their tax bills. In its latest IRS Summertime Tax Tip—which to me conjures up images of tax advice on a lazy summer afternoon—the IRS lists ways you can save. See IRS Tax Tip 2011-15.

If despite the housing market's recent difficulties you have sold or are about to sell your house, here's a short list of what you need to know:

Gain Exclusion. If you have a gain from the sale of your primary residence you may be able to exclude up to $250,000 of that gain from your income. In fact, the exclusion goes up to $500,000 on a joint return in most cases. If you're lucky enough to have a much bigger gain, this may seem small, but it still helps most people.

Two Year Rule. In general, you are eligible to exclude the gain if you have owned and used your home as your primary residence for two years out of the five years prior to the date of its sale.

Beware Multiple Sales. You are not eligible for the exclusion if you excluded the gain from the sale of ***another*** home during the two-year period prior to the sale of your home.

Taxable Gains. If you have a gain that cannot be excluded, it is taxable. You must report it on Form 1040, Schedule D, Capital Gains and Losses.

You Can't Claim a Loss. You cannot deduct a loss from the sale of your main home. I know this isn't parallel, but that's the rule. Gains are taxable, losses can't be claimed.

Basis is Important. One of the most fundamental tax rules is that you must keep track of your basis. If you buy your house for $200,000, that's your basis. If you later remodel it for $50,000, your basis goes up to $250,000. Make sure you can calculate and prove your basis. The IRS includes worksheets in Publication 523, Selling Your Home, to help you figure the adjusted basis of the home you sold, the gain (or loss) on the sale, and the gain that you can exclude.

Multiple Homes. If you have more than one home, you can exclude a gain only from the sale of your primary home. The gain from selling any other home is taxable. If you have two homes and live in both of them, your primary home is ordinarily the one you live in most of the time.

First-Time Homebuyer Credit. If you received the first-time homebuyer credit but within 36 months of purchase no longer use it as your principal residence, you are required to ***repay the credit***. That payment is due with the income tax return for the year the home ceased to be your principal residence, using Form 5405, First-Time Homebuyer Credit and Repayment of the Credit.

Address Change! When you move, be sure to update your address with the IRS and the U.S. Postal Service to ensure you receive refunds or correspondence from the IRS. Use Form 8822, Change of Address, to notify the IRS of your address change. See Help IRS Find You! (Yes, I'm Serious).

For more, see:

IRS Oops On First-Time Homeowner Credits

Short Sale Tax Problems

Home Foreclosures And Tax Returns

Remember that $7,500 first-time home-buyer credit? It's now an IRS headache

IRS: First-Time Homebuyer Credit

IRS: Sale of Residence – Real Estate Tax Tips

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