

# Net Profits and Capital Gains

## Keys To Your Next Home Sale

**Y**ou know what you paid when you purchased your home 5, 10, 20 or more years ago. But do you know how much money you would walk away with if you sold your home today? Do you know whether your profits would trigger a capital gains tax liability?

Calculating net proceeds and capital gains is an important part of selling a home. By knowing what your net proceeds are likely to be, you can build a sound plan to use your “walk-away cash,” especially if you intend to purchase a replacement home. Another important task — accurately calculating capital gains and documenting your computation — is a must in order to stay on the right side of the IRS.



### Net Proceeds

Finding out how much money you'll net from a home sale is a bit more complicated than simply subtracting your mortgage balance from the price you think your home will sell for. Here's how to arrive at a realistic figure.

### Sales Price

Start calculating net proceeds by finding out what your home is likely to sell for. That's where we can be especially helpful. We analyze a variety of factors in determining the best listing price (and most likely sales price) of your home, including:

- Recent sales prices and listing prices of comparable homes in your area.
- Differences between your home and those we are comparing it with.
- Supply and demand for real estate in your area.
- Local and regional economic conditions.
- Development plans for the neighborhood and area.

### Mortgage Balance

Once you've estimated the likely sales price of your home, you'll need to subtract the amount of money owed on your mortgage (or mortgages, if you've borrowed money using your home's equity). Usually, the payoff balance is different than the mortgage balance shown on your statement, so you'll want to call your mortgage company and ask what the payoff balance would be if you settled (closed) the sale of the home on a specified date.

### Selling Expenses

Like most sellers, you're likely to have some selling expenses, which may include:

- Fix-ups and repairs.
- Pest and other required inspections.
- Points or other costs paid for the borrower (as negotiated).
- Attorney's services.
- Brokerage services.
- Capital gains taxes.

We would be happy to help you estimate the cost of these expenses so you can subtract them from the sales price along with your mortgage balance. The bottom-line figure will be the amount you can plan to use as a down payment on your next home!

### Capital Gains

The capital gains from a home sale are not the same as net proceeds. Instead, gains are the selling price minus qualified selling expenses *and* minus the “adjusted cost basis” of your home. The bottom line may be taxable.

Currently, the federal government allows qualified single taxpayers to take home-sale gains up to \$250,000 tax free, while qualified married couples filing jointly can exclude up to \$500,000 in gains from taxation.

To qualify for the full exclusion, most taxpayers must have owned and lived in the home for at least two of the five years preceding the sale. (Note: Some states tax capital gains on home sales. Ask us for more information.)

To find out whether you will owe federal capital gains taxes on your home sale, you'll need a listing of all the expenses and income associated with your ownership of the home. Hopefully, you'll have saved all the relevant documents that provide the information you need.

We've provided a summary on the next page outlining the steps you'll need to take to calculate capital gains, but you'll need complete information to ensure you perform the calculation properly. Refer to *IRS Publication 523, "Selling Your Home,"* available at your local post office or library or online at [IRS.gov](http://IRS.gov).

**To Purchase Call (703) 698-7750**