

A Legacy Built on Promises Delivered



TGFYI
Informational Flyer

REAL ESTATE Capital Gains

Capital Gains— Profit made from buying real estate and reselling it at a higher price.

Understanding Capital Gains in Real Estate

When you sell a stock, you owe taxes on your gain, the difference between what you paid for the stock and what you sold it for. The same is true with selling a home (or a second home), but there are some special considerations. What you paid for the home includes not only the original price, but also the cost of many improvements, so *hold on to your receipts!*

How to calculate gain - the basics

In real estate, capital gains are based not on what you paid for the home, but on its adjusted cost basis.

To calculate this, the basics are:

1. Take the purchase price of the home: This is the sale price, not the amount of money you actually contributed at closing.
2. To the purchase price, add adjustments:
 - Cost of the purchase—including transfer fees, attorney fees, inspections, but not points you paid on your mortgage.
 - Cost of sale—including inspections, attorney's fee, real estate commission, and money you spent to fix up your home just prior to sale.
 - Cost of improvements—including room additions, deck, etc.... ***save receipts
3. The total you get from above is the "adjusted cost basis" of your home.
4. Subtract this adjusted cost basis from the amount you sell your home for. **This is your capital gain.**

★ A Special Real Estate Exemption for Capital Gains ★

Since 1997, up to \$250,000 in capital gains (\$500,000 for a married couple) on the sale of a home is exempt from taxation if you meet the following criteria:

1. Owned the home for at least two years.
2. Lived in the home as your main home for at least two of the past five years.

What receipts to keep?

The partial list below is from IRS Publication 523.

Additions to your home, including: Deck, Porch, & Patio
Heating & Air Conditioning: Furnace, Duct Work, Central humidifier
Lawn & Grounds: Landscaping, Fence, Sprinkler system, Swimming pool
Plumbing: Water heater, Filtration system
Interior Improvements: Kitchen modernization, Flooring, Wall-to-wall carpeting
Miscellaneous: Satellite dish, Security system, New roof

FOR FURTHER INFORMATION:

Tax Topic 409- Capital Gains and Losses

www.irs.gov/taxtopics/tc409.html

Tax Topic 701- Sale of Your Home

www.irs.gov/taxtopics/tc701.html

IRS Publication 523- Selling Your Home

www.irs.gov/pub/irs-pdf/p523/pdf

Tax Facts About Capital Gains and Losses

www.irs.gov/newsroom/article/0,,id=106799,00.html

Title Guaranty does not render legal or tax advice. This flyer is only intended to contain general information, and you should seek the assistance of a competent financial and tax advisor in analyzing your capital gains situation.

19 Locations Statewide!

Koloa • Lihue • Princeville • Kahului • Kihei • Lahaina • Paia
Hilo • Kamuela • Kona • Keauhou • Hawaii Kai • Kahala
Kailua • King • Main • Mililani • Pearlridge • Waipahu



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Quiz

(CONTINUED)

1. Capital Gains is the profit made from buying real estate and reselling it at a higher price.

- A. True
- B. False

2. Which equation represents the correct way to calculate capital gains?

- A. Sale price - (purchase price - adjustments)
- B. Sale price - (purchase price + adjustments)
- C. Sale price - purchase price
- D. (Sale price - purchase price) - adjustments

3. Mary bought her home for \$330,000. Eight years later she sold it for \$450,000. Her capital gain is:

- A. \$120,000
- B. \$120, 000 plus adjustments
- C. (\$450,000 minus adjustments) - \$330,000
- D. \$450,000 minus (\$330,000 + adjustments)

4. Which of the following is not one of the categories included when calculating adjustments to the purchase price?

- A. Cost of the purchase
- B. Cost of moving
- C. Cost of sale
- D. Cost of improvements

5. There is only one way a person (or couple) can qualify for capital gains exemption.

- A. True
- B. False

6. Adjustments to the purchase price of your home include all of the following except:

- A. Swimming pool installation
- B. New security system
- C. New flat screen tv
- D. Water heater

Answers: 1. A 2. B 3. D 4. B 5. B 6. C

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