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ROAD TO
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year replacement period. Essentially, you were deferring or rolling over your gains from the sale.

Each time you sold a house, you filed Internal Revenue Service Form 2119 with your Form 1040 in the year of the sale. Form 2119 reported the selling price of the home, the original cost and additions and improvements, and whether you were replacing the home or paying a tax on the gain.

The law changed on May 7, 1997. Since then, there is no such thing as a deferral, making the two-year replacement period obsolete.

Now, when you sell a home, a capital gains tax may be due for the year of the

Take note of tax changes if you sell a home

If you have not sold a home recently, you may need a refresher on taxes. A lot has changed in the past 10 years.

Before 1997, you could avoid taxes by purchasing another home within a two-

sale, but only if the gain is more than \$250,000 for individuals or \$500,000 for married couples filing jointly, says IRS spokeswoman, Dianne Besunder.

But to qualify for the \$250,000 to \$500,000 exclusion, you have to jump through some hoops.

First, is the "ownership test." Count back five years from the date of the sale. If you owned the house for at least two years during that time, you meet the ownership test. The two years do not have to run continuously, but can be a cumulative total over the five years.

Second, is the "use test." Again, count back five years from the date of the sale. If you lived in the house as your "main home" for at least two years, you meet the use test.

Your main home is the home you live in most of the time, and includes houseboats and the usual homes and cooperative apartments and condominiums, according to IRS Publication 523, *Selling Your Home*. Again, there can be breaks in the two-year period.

Third, look back two years from the

date of the sale. If you sold a home during that time for a gain that you excluded, you do not qualify for another tax break — you must wait two years. That means all of the gain is taxable.

Taxpayers meeting these three tests can generally exclude up to \$250,000 of the gain. For example, if your gain is \$550,000, you can exclude \$250,000. If your gain is \$40,000, you can exclude \$40,000.

If you are married and filing separate returns, you and your spouse each can exclude up to \$250,000.

If you are married and file a joint return, you can exclude up to \$500,000, but only if both you and your spouse meet the use test. Only one of you needs to meet the ownership test.

But if either of you excluded gain from the sale of another home during the two-year period ending on the date of the sale, you're both out of luck.

There are special rules for sales incident to a divorce. You'll want to get a copy of IRS Publication 504 on *Property Settlements*.

So how do you figure your gain on a home?

Do some reading first. Get a copy of Publication 523 and review the sample Schedule D on page 23 of the 2006 version and the worksheets on pages 21 and 22. It will help if you also hold onto Form 2119's you filed with the IRS in previous years for prior home sales.

If you bought and sold multiple homes and deferred gains prior to 1997, you may have a very low cost basis — possibly even the original purchase price of the first home you purchased 20 or 40 years ago, according to Ted Lanzaro, a certified public accountant who practices in Shelton and Fairfield.

The best way to keep track of the basis is to keep a copy of your closing statement and receipts for improvements.

"Realistically, most people don't have all of the information they need to justify the basis, especially if they purchased homes many years ago," Lanzaro said. "Sometimes, the only thing you can do is to estimate the basis to the best of your memory and recollect-

tion and get help from a tax adviser." If after completing the worksheets, you find the gain is not taxable (or if there is no gain), there is no need to report the sale. If you sell your house at a loss, you might think you can claim the loss as a deduction — that's creative thinking, but not possible.

If you fail to meet the ownership and use tests or the holding period test, all is not lost. You may qualify for a reduced maximum exclusion, which we'll talk about next week. As always, be sure to review your specific situation with your accountant or tax adviser.

You can get a free copy of IRS Publications by calling (800) TAX-FORM or online at www.irs.gov. Be sure to read Tax Topic 701 — *Sale of Your Home*.

— Julie Jason, a money manager and principal of Jackson, Grant Investment Advisers Inc. of Stamford, welcomes questions for consideration in her column. E-mail her at JJ@JulieJason.com or write to her c/o *The Advocate and Greenwich Time*, 75 Tresser Blvd., Stamford, CT 06904.