

Understanding Capital Gains on Real Estate Sales

Selling a home in today's market, especially one that has appreciated over many years, can come with a surprise tax bill. If you're a homeowner (or helping one), here's a general overview to help understand when capital gains taxes may apply and what can reduce them.

Owner-Occupied Properties

Ask yourself:

1. Have you owned the home for at least 2 years?
2. Have you lived in the home as your primary residence for at least 2 of the past 5 years?

If yes, you may qualify for the IRS exclusion:

- Up to \$250,000 of gain for single filers
- Up to \$500,000 for married couples filing jointly

If not, you may owe capital gains taxes on the full gain. We recommend speaking with a qualified tax professional before selling.

The "Rollover Rule" Is Gone

Many people mistakenly believe they can defer gains by using proceeds to buy another home. That rule was eliminated in 1997. Now, gains over the IRS limits are taxable regardless of the price of your next home.

Important: What you owe on your mortgage has nothing to do with your taxable gain.

Net proceeds Capital gain

Estimating Your Gain

Here's a simplified formula:

Anticipated Sales Price

- Selling Costs (commissions, fees, etc.)
- Original Purchase Price
- Documented Capital Improvements

= Estimated Gain

Second Homes & Investment Properties

- If its a second home (e.g., vacation property not rented out), the entire gain is taxable.
- If its an investment property, the entire gain is taxable plus any depreciation claimed must be recaptured and taxed as ordinary income under IRS Section 1250.

A 1031 Exchange may help defer taxes if youre purchasing another investment property, but strict IRS rules apply.

What Counts as a Capital Improvement?

Capital improvements increase your cost basis and reduce your taxable gain. These include:

- Roof replacement
- Kitchen or bathroom remodels
- New windows, siding, or doors
- HVAC upgrades or replacements
- Flooring upgrades
- Additions, garages, porches, decks
- Built-in appliances
- Major electrical or plumbing improvements

Routine maintenance and cosmetic updates (painting, landscaping, or cleaning) do not qualify unless part of a larger renovation.

Homeowners Over 62? Another Option

A Reverse Mortgage for Purchase may allow qualified homeowners to buy their next home with no required monthly mortgage payment. Others may prefer to stay in their current home and access equity through a reverse mortgagepotentially avoiding capital gains while improving cash flow.

- Available up to \$4 million
- Borrowers must still pay property taxes, insurance, and maintain the home
- Not all homeowners will qualify

Final Thoughts

Every situation is unique. The tax consequences of selling real estate can be complicated. That's why we recommend speaking with a tax advisor especially when substantial equity, second homes, or investment properties are involved.

This guide is for educational purposes only and not legal or tax advice.

Prepared by:

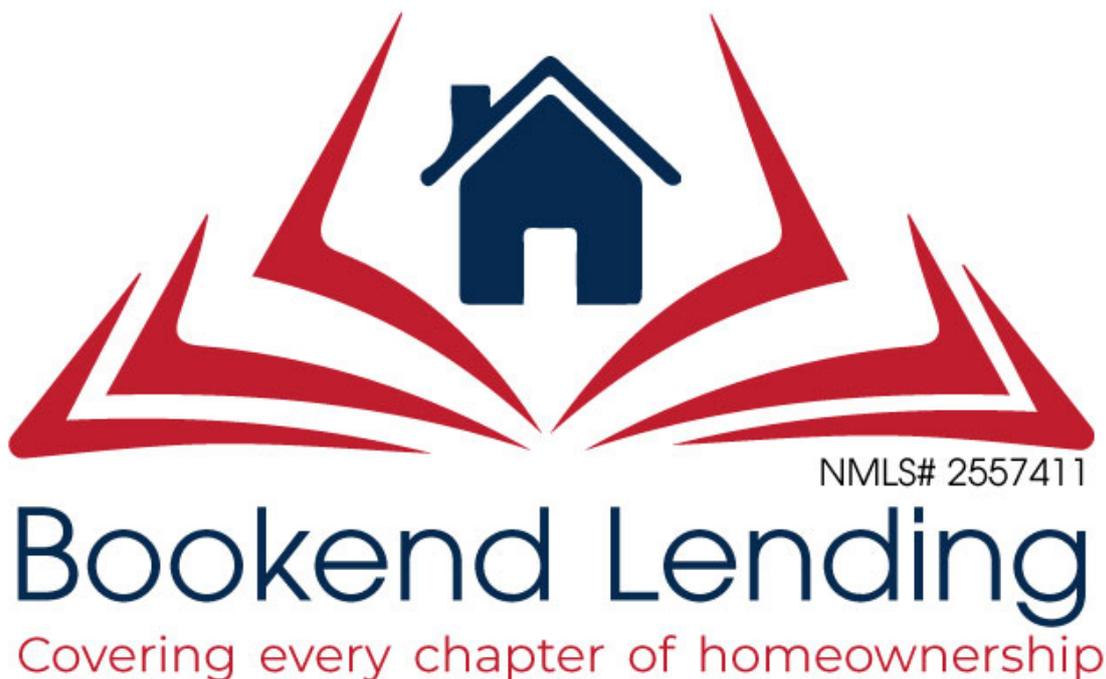
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Helpful IRS Resources:

- IRS Topic 701: Sale of Your Home
- IRS Topic 409: Capital Gains and Losses
- IRS Publication 523 (2024): Selling Your Home
- IRS Publication 544: Sales and Other Dispositions of Assets
- IRS Publication 527: Residential Rental Property
- IRS Like-Kind Exchange Info



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