



# CAPITAL GAINS

**The Taxpayer Relief Act of 1997 marks a significant change in the treatment of capital gains for taxpayers owning a principal residence.**

First: If the property is used as the principal residence of the seller in two of the previous five years, the first \$250,000 in capital gains is excluded from tax for individual tax filers and \$500,000 in capital gains is excluded from tax for couples filing jointly. In the case of married couples, either party can own the property, but both must meet the use test. This exclusion is available every two years.

Second: If the property is not subject to the exclusion, the gain on the sale may still qualify for a capital gain tax rate that is lower than the taxpayers normal tax rate. Factors that determine the capital gains tax rate include the date the property was purchased, the length of time the taxpayer owned the property, the tax payers marginal tax rate and the amount (if any) the property has been depreciated.

Property acquired prior to December 31, 2000 and owned for a minimum of eighteen months probably qualifies for a capital gains tax rate.

Property acquired after December 31, 2000 must be held for a minimum of five years to qualify.

The capital gains tax rate is dependent on tax filers tax bracket. The rate for those in the lowest bracket is different than the rate for those in higher brackets. The tax rate is also determined by when the property was purchased, but ..... it may be possible to have the property treated as having been purchased on a date different than the date it was actually purchased. Additionally, the tax rate on the amount of the gain that was depreciated during prior years is different than the normal rate.

The above is a brief overview. Every transaction has specific circumstances that affect an individual's actual tax liability. Individuals who are considering a real estate transaction, are advised to get the advice of professionals who thoroughly understand current and pending Federal and State tax laws. Diligent Shrewd planning and execution can decrease taxes and increase the amount the individual has left after the Federal and Sate governments takes their share.

THE FOREGOING IS PROVIDED FOR GENERAL INFORMATION ONLY. FOR SPECIFIC QUESTIONS OR FINANCIAL, TAX OR ESTATE PLANNING, WE SUGGEST YOU CONTACT AN ATTORNEY OR CERTIFIED PUBLIC ACCOUNTANT.

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