



Homeowner's Tax Worksheet



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Part I Basis of Residence

A. Purchase Price \$ _____

B. Less Personal Property Item - _____

C. Plus Purchase Costs To Be Added To Basis

\$ _____

\$ _____

\$ _____

\$ _____

\$ _____

\$ _____

\$ _____

Total Purchase Costs + _____

D. Basis at Time of Purchase \$ _____

E. Plus Capital Improvements

\$ _____

\$ _____

\$ _____

\$ _____

\$ _____

\$ _____

Total Improvements + _____

F. Adjusted Basis \$ _____

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Part II Computation of Gain

A. Selling Price of Residence	\$ _____
B. Less Personal Property Items	- _____
C. Less Expenses of Sale:	
\$ _____	
\$ _____	
\$ _____	
\$ _____	
\$ _____	
\$ _____	
\$ _____	
Total Expenses	- _____
D. Net Selling Price	- _____
E. Less Basis of Residence Sold (I-F)	- _____
F. Gain on Sale (realized gain)	\$ _____

If result is zero or less, enter zero.

G. Less Exclusion	- _____
H. Taxable Gain (recognized gain)	\$ _____

Preferential tax treatment is applied at appropriate tax rate.

The preparer disclaims all express or implied warranties for the contents of this report. Although all facts, figures and projections have been obtained from sources deemed reliable and are believed to be correct, their author assumes no guarantee or liability. This form assists in the analysis of a real estate decision and is not intended to comprehensively analyze the financial or tax ramifications for an individual homeowner. Should you feel you need legal or tax advice, it is suggested that you consult a qualified professional. This form assumes the tax preparer will itemize deductions.

SALE OF A PRINCIPAL RESIDENCE

The Internal Revenue code allows a homeowner to a specific amount of gain from a principal residence based on a taxpayer meeting certain requirements.

However, most homeowners don't take advantage of all the adjustments in order to keep the gain as low as possible. If the truth could be told, most people's records are so poor that when the time comes to recognize the gain, the calculations probably have to be based on estimates instead of actual numbers.

Rules to be eligible for Exclusion

- 1) Qualifying home must be used as your principal residence two out of the five preceding years. This exclusion does not apply to vacation or 2nd homes.
- 2) Effective for sales on or after May 7, 1997.
- 3) Couples filing joint returns can exclude up to \$500,000 of gain on sale of principal residence. Single return filers can exclude up to \$250,000.
- 4) Gain in excess of applicable exclusion is taxed at appropriate capital gains rate.

Part 1 - Basis of Residence

- A. **Purchase Price** - the form starts out with the original purchase price of the home. This would be the price that is shown on the closing statement at the time of purchase.
- B. **Personal Property Items** - the cost of personal property that was included in the purchase price must be subtracted at this point. If no actual value was assigned to the property at the time of purchase, a conservative estimate should be used.
- C. **Purchase Costs** - Included here are closing costs that the homeowners paid for the acquisition of the home but were not expensed in the year of purchase. Costs to acquire the loan and reserves for insurance cannot be deducted or capitalized.
- D. **Total Basis at Time of Purchase** - this is the figure that is arrived at by subtracting the personal property items from the purchase price, then adding the unexpensed closing costs and then, subtracting the cumulative deferred gain.
- E. **Capital Improvements**

IRS allows a homeowner to take the costs of capital improvements and add them to the basis of their home in order to accurately reflect the true gain in a property when it is sold. The problem is that many people find it hard to distinguish a capital improvement from a repair.

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A repair is considered to be maintenance of an existing item such as fixing a dripping faucet, adding Freon to an air conditioner, or replacing a broken window.

However, a capital improvement is something that adds value to the residence either by materially adding features or extending the life expectancy of the improvement.

A good record should be kept of capital improvements and it needs to be documented with receipts and canceled checks. To avoid controversy at some point in the future, a photograph could go a long way in helping to prove that the improvement was actually made.

The basic questions to determine if an expenditure qualifies for capital improvement treatment are:

- 1) does it materially add value to the property?
- 2) does it extend the life of the property?
- 3) does it adapt a portion of the home to a new use?

Capital improvements can include such items as landscaping, street assessments, remodeling, swimming pool, Formica counter-tops, and the like. If replacement items are used such as installing carpet where there had previously been carpet, only the upgrade amount can be added. For instance, if the home had a builder's grade of carpet and it was replaced with a more expensive line, only the difference between the builder's grade and the replacement can be added as a capital improvement.

An adjustment for casualty losses can also be made in this location on the form. A casualty loss is any actual monetary loss in value to the property you may have suffered but did not recognize on your tax return for the year of the loss and that you were not reimbursed for out of insurance proceeds.

F. **Adjusted Basis**- the combination of the total basis at time of purchase and the total capital improvements is called the adjusted basis.

Part II - Computation of Gain

A. **Selling Price of Old Residence**- the sales price of the property that is being sold is placed in this blank. It is the figure shown on the closing statement and sales contract.

B. **Less Personal Property Items** - An adjustment is made to determine the value of the real property being sold. If no actual dollar value was attached to the personal property, the IRS allows the value to be estimated. Unlike the strategy in Part 1, the larger the value of personal property declared here, the smaller the gain. Therefore, don't undervalue personal property.

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- C. **Expenses of Sale** - The sales expenses or sales costs of the old residence are listed here to be subtracted from the sales price of the old residence less personal property items in order to accurately reflect the gain.

Typical fees paid are brokerage fee, loan fees, title insurance, escrow fees, attorney fees, and other miscellaneous fees. Points paid by a seller are not interest but are treated like other sales costs and are basis adjustments.

However, a pre-payment penalty is considered interest and is not reported here but as interest paid on a personal residence and is reported on Schedule A of the 1040 Form.

- D. **Net Selling Price** - the price that the property sold for less personal property items and expenses of sale in order to accurately reflect what the seller actually received for the property.
- E. **Basis of Residence Sold** - inserted on this blank is the adjusted basis that was calculated in Part 1.
- F. **Gain on Sale** - by subtracting the adjusted basis from the net selling price, the gain on sale is ascertained.

Examples of Capital Improvements



Trees	Swimming Pool	Paneling
Patio	Built-in Bar	TV Antenna
Cabinets	Heating System	Garage Addtn
A/C System	Special Assessments	New Flooring
Bookcases	Patio Cover	Room Addtns
Deck Installation	Patio Extension	New Roof
Landscaping/Shrubs	Permanent Barbecue	Driveways
Trash Compactor	Complete Repainting	Sun Shades
Heating System	Fencing/Gates	Wallpapering
Storm Windows	Drapery Rods	Walkways
Pet Runs, Kennels	Wall Mirrors	Solar Panels
Carport Addition	Garage Door Opener	Carpeting
Built-in Oven	Renovations	Dead Bolts
Lawn Installation	New Plumbing	Water Heater
Light Fixtures	Burglar Alarm System	Grading Soil
Electric Wiring	Fireplace Addition	Planter Boxes
Water Softener	Basement Finishing	Insulation
Architect Fees	Removing Title Clouds	Shelving
Garbage Disposal	Intercom System	Sidewalks