

# Understanding Capital Gains

## When Selling Your Home

When you sell a stock, you pay taxes on the difference between your purchase price and your selling price. The same basic concept applies when selling a home –though real estate comes with additional factors to consider.

### How to Calculate Gain

1. **Start with your original purchase price** – This is the price you paid for the home when you bought it (not the amount you brought to closing).
2. **Add eligible purchase costs** – This can include certain fees paid at the time of purchase, such as transfer taxes, attorney fees, or inspection costs. (Do not include mortgage points paid.)
3. **Add the cost of qualifying improvements** – Include upgrades that add value, like a room addition or a new deck. Regular repairs or replacements of existing items don't count.

The total from steps 1–3 is your **adjusted cost basis**.

Next, calculate your **net proceeds** from the sale – This is the sale price minus selling expenses, such as real estate commissions, inspection fees, legal costs, title fees, and any fix-up expenses made specifically to prepare the home for market.

**Your capital gain = (Net proceeds from sale) – (Adjusted cost basis)**

### Special Capital Gains Exclusion for Homeowners:

The IRS allows you to exclude up to \$250,000 of capital gains (or \$500,000 for married couples filing jointly) if:

- You owned and lived in the home as your primary residence for at least two of the past five years, and
- You have not claimed the exclusion on another home in the past two years.

In some cases, you may qualify for a partial exclusion if you don't meet the full two-year requirement but had to sell due to circumstances such as job relocation, divorce, or certain health issues.

For more details, see IRS Publication 523, *Selling Your Home*, which explains qualifying events and how to calculate both full and partial exclusions.



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