CAPITAL GAINS & TAXES

Capital gains taxes are charged when you sell something that's increased in value such as an investment like a stock or property. Generally, if you held onto the asset for more than a year before you sold it, then you are taxed at the long-term capital gains rate. The rate varies based on your income tax bracket and the investment type, but for real estate in 2016, it tops out at 25% for investment properties.

An important exception to the capital gains tax kicks in when you are selling your home. You can exclude $250,000 of your profit from the sale of your home if you are single and $500,000 of the profit if you're filing taxes jointly as a married couple. However, you do have to meet specific requirements to claim this exclusion:

- **The home must be your primary residence.**
- **You must have owned the home for at least two years.**
- **You must have lived in the home for at least two of the past five years.**

It sounds like you meet those requirements, but for other readers there are some exceptions to these rules that may allow them to take a partial exclusion. For more information, consult a tax advisor or IRS Publication 523. While that exclusion may be large enough so that you can avoid capital gains taxes entirely, if your home has increased more than that in value, then you may still be able to reduce your tax bill because of home improvements you made.

The money you spent on any home improvements, such as replacing the roof, building a deck, replacing the flooring or finishing a basement, can be added to the initial price of your home to give you the adjusted cost basis of your home.

For example, if you purchased your home for $200,000 in 1987 and sold it for $550,000, but over the past 27 years have spent $100,000 on home improvements, that $100,000 would be subtracted from the sales price of your home this year. Instead of owing capital gains taxes on the $350,000 profit from the sale, you would owe taxes on $250,000. In that case, it also sounds like you meet the requirements for a capital gains tax exclusion and owe nothing.

Of course, all of this depends on your initial purchase price, the amount of money you spent on home improvements, and the sales price of your home. If you owe taxes, the amount you will pay depends on your tax bracket.

- **If you're in the 10% to 15% tax bracket, your capital gains tax rate is zero.**
- **If you're in the 25% to 35% tax bracket, your capital gains tax rate is 15%.**
- **If you're in the 39.6% tax bracket, your capital gains tax rate is 20%**

Hopefully, you can dig back into your financial files to find records for your home improvement projects, since your past spending on those projects can save you money when you are ready to sell your home.