Don't be tripped up by capital gains rules

by Ilyce_Glink

Q: I'm 23 and planning to sell two investment properties I own this year. I lived in one for two of the past five years as a primary residence. This property has been a rental since March, 2006. I purchased my other property the same month. I lived there for six months, and have rented it out for the past six months. My plan is to sell both properties and use the money to pay off the debt on my current mortgage. Will I have to pay capital gains tax on both properties? Will investing the money into my existing loan qualify for a like-kind exchange? I'm feeling a little lost with all these decisions. A: Let's see if I have this right: You're 23, you apparently own three properties (or maybe more), and you expect to have some profit when you sell. Good for you. You don't sound lost to me. However, you do sound a bit confused about the rules regarding capital gains taxes on primary residences and investment properties. Regarding your primary residence, current IRS rules allow you to keep up to $250,000 in profits (up to $500,000 if you're married) tax free when you sell a home, as long as you've lived there for two of the past five years. For you, unless you've had a profit that exceeds this level, you'll be able to keep the profits on the house you lived in as a primary residence tax free. However, IRS rules state that you may only use this exclusion once every 24 months. Because the property was rented, you may have other tax issues relating to it and should talk to an accountant. When you sell the second property - an investment property - you won't be able to keep the profits tax-free. If you had moved into this property as your primary residence, you'd still have to wait 24 months to sell and keep that profit tax free. When you sell the second property (your investment property), if you've owned it for at least a year, you'll owe capital gains tax of up to 15 percent, plus state tax on your profits. If you've taken any depreciation of the property on your taxes, you may have to recapture that depreciation. You can't take the profits and roll them over into your current home's mortgage to avoid taxes. The only way to defer any tax you may owe on an investment property is to do a 1031 tax free exchange and purchase a replacement investment property that costs at least as much as the property you're selling. However, I'm not sure that's going to help you. Before you do anything, go to www.irs.gov and check out Publication 523, "Selling Your Home." You may also want to hire a real estate attorney and/or accountant who understands real estate to help guide you further in what seems to be a profitable venture. Q: I'm looking for crime statistics for the neighborhood in which I'm thinking about buying a home. Where do I get current crime statistics? A: The best place to get neighborhood crime statistics is your local police station. The log they keep of crimes that are reported is public record. Ask the officer on duty to show you the log and ask if there's a public information officer or someone else at the station who can talk to you about what's really going on in your neighborhood. In addition, do your own research. Spend some time in the neighborhood. Drive through alleys looking for signs of graffiti, break-ins (cars or houses), boarded up back windows, etc. Stop in and chat with local store owners about the area and what's been happening. Your local alderman's or councilman's office may also provide helpful information. Some local newspapers carry lists of crimes each week. If your neighborhood has one, call the reporter who covers the crime beat.