Real Estate Matters â€“ financial questions and answers

by Ilyce_Glink

Q: I read your recent column regarding the tax implications of a person selling a house that was not a primary residence. In your reply regarding the selling of a second home, you started the 4th paragraph with, "If you've owned the second property for at least a year..." Can you expand on the "at least a year" part?My brothers and I bought my mother's home for $1, then sold it several months later. Thus, we owned the house for "less than a year." Are there special rules dealing with amount of time you've owned a home?A: How long you've owned a property before you sell is something the IRS wants to know. How long you own your home relates specifically to how much tax you'll pay, if any, on the profits you earn when you sell. According to the IRS, if you own a home for less than a year and then sell, the profits are considered to be ordinary income. Thus, you'd pay tax on the profits of up to 35 percent, plus state tax.If you own a property for at least 12 months before selling, you'd owe capital gains tax at a rate of up to 15 percent, plus state tax.For example, if you bought your mother's home for $1, then sold it for $100,000 two months later, you'd owe tax as if you'd earned $100,000 in a job. You'd probably pay 33 to 35 percent federal tax, plus state tax. However, had you waited a year before selling, you'd only have owed 15 percent tax, plus state tax. Big difference.Here's the kicker, though: If Mom had kept the house until she died, you would have inherited it at its value on the day of her death. Then, even if you sold it immediately, there would have been no tax on the sale.For more details, see your accountant or tax preparer. Q: As a potential first-time buyer, I have limited experience in real estate. I've been searching for options that might help me buy a house. Recently, I was told of a "service" that charges $198 for you to browse their listings. Users choose a house to view, then call an agent at the firm who takes you to see the property.Now the trickery begins. According to the company, the owner of the property I'm seeing is supposed to be on the brink of foreclosure, and wants to walk away from the situation. I'm supposed to be able to step in and take over their mortgage payment. Is this legal?A: It might be technically legal, but the Web site or company you're working with might be a scam. The so-called "listings" you're seeing may be real or they may be fakes.There are people who've made a lot of money finding folks on the brink of foreclosure, who can't sell their properties and are looking for a way out. But if these deals were so good, you can bet that the owners of this Web site or company would have already swooped in and scooped them up. My suggestion is to take a pass on this opportunity.As for taking over another person's mortgage payment, that is often more difficult that it seems. In general, only FHA loans are assumable, provided you can qualify, and there may be fees to pay.In some cases, if the mortgage on the home you're buying is already in foreclosure (i.e. the bank is in the process of getting title to the home to pay off the debt), the costs of foreclosure and other issues you might face may not make the purchase as attractive as it seems.If you simply want to buy a home, you can view many properties for sale for free at any number of Web sites, including www.Realtor.com. If you work with a buyer's agent, he or she will be able to help you find an appropriate house.