June 2007 *MoneyMinute* – How Much Did Your Home Cost?

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In the year you sell your home this becomes an important question. An accurate answer could mean more dollars that you get to keep instead of handing them over to the IRS.

In 1997 Congress said you may exclude the first $250,000 of gain when you sell your home ($500,000 for a couple filing a joint return)*. Today, the profit in many homes exceeds these exclusions. Yours may be one of them now, or your home may top these figures when you're ready to sell. For this reason let's look at how to find the ***real*** cost of your home.

Real cost of home: Begin with your purchase price plus some of the closing costs. Then add the cost of all the improvements you made to the property.

Some improvements are easy to see and remember:
- A new roof
- Kitchen or bath remodel
- The added bedroom
- New windows

And some improvements may be difficult to remember, like the new:
- Switch plates
- Knobs for the door or cupboards
- Screen door
- Mailbox
- Ceiling fans
- Built-in shelves
- Curtain rods
- Garden, trees and landscaping

How to begin to keep good records? Sit down now and list all of the improvements you can possibly see and remember. Gather receipts for some and estimate the cost for the others. This will be better than no record at all.

Now, going forward, use a large envelope for each year. Before putting the receipt inside, write the item on the outside of the envelope. This will come in handy when you replace your carpet or the kitchen counter for the second time. Only the last carpet counts toward the cost of your home because it is the one you are selling to the new owners. Cross off the first carpet from the list, since it doesn't count anymore.

A note on improvements vs. repairs: An improvement is an amount spent to permanently improve your home, normally increasing the value of your home for years into the future. Repairs such as replacing old window screens and repainting the house are not considered improvements, even though these repairs would make the house more valuable than if the repairs had never been made. Painting the new aluminum siding installed on the house would be an improvement since it is part of the new siding. Future paintings would be considered repairs or maintenance. Same applies to the second carpet, the second kitchen counter, the second roof … you get the idea.

You probably have more improvement costs (and less taxable gain) than you realize.

* ***The complete rule**: To earn the exclusion, you must answer "yes" to these questions:*

1. *Have you owned the property for at least 2 years before the sale?*
2. *Has this been your main home for at least 2 of the last 5 years?*
3. *Has it been at least 2 years since you claimed an exclusion?*

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