

OAKLAND BUSINESS & Finance

# Weigh taxes when buying, selling

MORE THAN MONEY



SID MITTRA, Ph.D.

Almost any time can be a prime time for selling or buying residential real estate.

Tax considerations, including proposed legislation that may be enacted, may influence your decision on whether or when

to sell or purchase a residence. Selling a home often results in a capital gain, which may be deferred or avoided in many cases, but sometimes results in a loss, which is a nondeductible personal loss.

Proposed legislation is under consideration that, if passed, would permit a loss on the sale of a principal residence after 1995 to be deducted as a capital loss.

The basic rule for computing tax gain, or loss, on sale of a home is as follows: Amount realized (selling price less selling expenses) minus adjusted basis (cost plus improvements and additions less any deferred gain as discussed below) equals gain or loss.

### Outright sale

Deferral of Gain — If you sell your principal residence, you can generally postpone paying tax on all or part of the gain if you buy a replacement home within two years before or after the original residence is sold.

Gain from the sale of the original home is taxable only to the extent that its adjusted sales price exceeds the cost of the new home, which also must be used as a principal residence — the rest is deferred.

Under the three-year statute of limitations period will not begin to run until the IRS has received notice of the deferral, taxpayers should file Form 211, Sale of Your Home, with their tax return in the year of the sale.

Once-in-a-Lifetime Exclusion of Gain — If you or your spouse have attained 55 years of age before the date of the sale, you may elect to exclude up to \$125,000 — \$62,500 for married taxpayers filing separately — of gain from the sale of a principal

Sale price of old home	\$ 320,000	Adjusted sales price of old home	\$ 170,000
Less: Selling expenses	\$ (25,000)	Less purchase price of new home	(145,000)
One-time gain exclusion	(125,000)	Gain not deferred (taxed currently)	\$ 25,000
Adjusted sales price	170,000	Purchase price of new home	\$ 145,000
Less adjusted tax basis of old home	(70,000)	Less deferred gain (\$100,000-\$25,000)	(75,000)
Realized gain (after one-time exclusion)	\$ 100,000	Tax basis in new home	\$ 70,000

residence. To qualify, you must have owned and used the property as a principal residence for three of the five years immediately preceding the sale. An individual may elect an exclusion only once.

So, if either one of a married couple has previously made an election while single or in a previous marriage, no further elections are available to them or to their spouse.

If marriage is contemplated between eligible persons, people over 55 years of age and have never used the exclusion and if each future spouse will be selling his or her residence, it may be advantageous to sell the home before marriage and for each taxpayer to elect to exclude up to \$125,000 of their respective gain while filing as single taxpayers. And if each future spouse will be selling his or her residence, it may be advantageous to sell the home before marriage and for each taxpayer to elect to exclude up to \$125,000 of their respective gain while filing as single taxpayers. And if each future spouse will be selling his or her residence, it may be advantageous to sell the home before marriage and for each taxpayer to elect to exclude up to \$125,000 of their respective gain while filing as single taxpayers.

Deferral/Exclusion Combination — You may elect the one-time \$125,000 exclusion, assuming the requirements are met, and defer any remaining gain.

For example, Mary, a single 65-year-old taxpayer, has lived in her principal residence for 10 years and is selling it for \$320,000. Her adjusted tax basis in the property is \$70,000 (original basis of \$50,000 plus improvements of \$20,000), and she will incur selling expenses (including sales commissions) of \$25,000. Mary plans to retire and purchase a condominium for \$145,000.

If she elects to use her one-time exclusion, Mary's gain on her old home and basis in her new home would be computed as listed in the accompanying chart.

The top federal tax rate on long-term capital gain is 28 percent. Proposed tax legislation is

being considered that, if passed, would allow a 50-percent deduction for long-term capital gains reported after 1994, but this date may change. This would give a taxpayer in the 28 percent tax bracket an effective capital gain tax rate of 13.8 percent.

### Installment sale

If you are unable to exclude the capital gain or roll it over to a new residence, you may want to use an installment sale to defer at least part of the gain.

An installment sale occurs when you, the seller, receive at least one payment after the close of the taxable year in which the property is sold. Unless you elect to be taxed on all of the gain in the year of the sale, the gain is recognized in the ratio of the gross profit to the total contract price as payments are received.

An installment sale may be advantageous if capital gains tax reduction is adopted but the effective date is delayed. You may be able to take advantage of the date. In addition, the sale of property in exchange for a property in exchange for a purchaser's promise to make fixed payments for the seller's lifetime is a private annuity.

A private annuity has some of the income tax characteristics of an installment sale but, because the obligation terminates at death, may have estate planning advantages in some cases.

### Other considerations

Some other things to consider when contemplating whether to sell or purchase a new home:

Death — There may be no capital gain or loss if a residence was owned by the decedent, because of the step-up or step-down, in a decedent's tax basis to the fair mar-

ket value at death. Divorce — Transfers between spouses incident to divorce usually escape current taxation.

But, divorced individuals should consider their tax basis in a residence, whether they have joint and several liability that results from a sale of residence during their marriage, whether to elect the \$125,000 exclusion while they are single and whether they can separately roll over their portion of any capital gain that is recognized.

Charitable Contributions — It is possible to give a remainder interest in a residence, or sell a residence at a bargain price, to a qualified charity.

Relocation Outside the United States — The replacement period for deferring the gain on the sale of a principal residence can be extended from two years to four years under certain circumstances.

Special rules may apply if your home is at least partially business or investment property, you buy more than one principal residence within the two-year period for gain deferral or you sell to a related party such as a family member.

These are just some thoughts to consider. Your tax advisor can provide more detailed information and should be consulted before any action is taken.

Sid Mittra, Ph.D., CFP, is professor of finance at Oakland University in Rochester Hills and owner of Mittra & Associates, a Troy financial consulting firm. This material was supplied by DeLoitte & Touche. You can direct questions or comments to Sid Mittra, Ph.D., CFP by e-mail with smittra@online.com.

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# Tune in to National Turnoff TV Week



EMORY DANIELS

National TV-Turnoff Week will be observed April 24-30.

This week should be observed by those who are worried about how much TV Americans watch and those concerned about the negative affect television-watching has on health, families, communities, the environment, education and literacy.

More than one million people and 4,000 schools participated in the first TV-Turnoff in 1995, demonstrating that a solid one-week recess from television promotes family interaction, reading, volunteerism, exercise, enjoyment of nature, taking part in community affairs, thinking, creating and doing. Some three-four million are expected to participate this year.

There is a Listserv discussion group dedicated to TV-Turnoff. You will remember that PC users subscribe (free) to a Listserv group and get information or conduct discussions via E-mail. When you join a Listserv make sure you file away the instructions on how to quit the list and how to send messages.

To subscribe to TVFA-Announce, send a message to listproc@essential.org and in the body of the message type "SUBSCRIBE TVFA-ANNOUNCE yourfirstname.yourlastname". This list is moderated by Monte Burke, campaign organizer for TV-Free America. Subscribers will get information on how to become actively involved in the National TV-Turnoff Week and TV-SCIENCE TVFA-ANNOUNCE yourfirstname.yourlastname".

### Climbing Everest

A South African team on March 13 started its efforts to climb Mount Everest. This is not only the first attempt by a South

African team but is a high-tech expedition.

Satellite and computer technology will combine with the World Wide Web to allow the world to follow in the footsteps of the six-person team as they make their final assault on the world's highest peak.

Kodak digital cameras will provide the latest images from the Himalayas and computer equipment donated by Apple Computers, especially tested at altitudes of 30,000 feet, will allow the climbers to communicate with the base camp, journalists, and the Internet public.

You can check in on the climb by pointing to <http://www.web.co.za/everest/>. The public will be able to "talk to the climbers" as the ascend the freezing slopes of Everest and climbing fans can participate in the site's discussion forum. The site contains a wealth of information about the expedition and about Everest and the ecology of the Himalayas plus links to other expedition sites on the Net.

The site will be updated regularly with direct feeds from the climbers and with contributions from journalists and photographers at base camp.

### A Spool Site

Someone has gone to a lot of trouble to create a spool site of the White House Web site. The official site is at <http://www.whitehouse.gov> and the spool site is at <http://www.whitehouse.net>.

The two sites are similar but upon close examination a visitor will notice an occasional mildly humorous link at the spool. If you "reload" the fake site, you will get different versions of the fake site.

When I visited there was one link that read "Vote '96, Political Campaigns: Four More Years" and another "Why? Because we like you" and a link on the parody site was "Presidential Pastimes: The President hits a homerun everytime at bat."

Another page led off with this information: "The Executive Office of the President includes senior policy advisors and offices re-

sponsible for the President's correspondence and communications. The Office of the Vice President, the Office of the First Lady, as well as the Office of Mrs. Gore." That page encouraged visitors to send mail to "1600 Pennsylvania Ave., Annandale, VA 22003."

Earlier, there reportedly was a link to the General Flowers' book homepage at <http://wwwnet.com/grow.net/flowers.htm> and another link replaced pictures of Clinton and Gore with a photo of Beavis and Butthead. This was a mix of several links to the real White House page.

# Manpower to offer a career day Tuesday

Southfield-based Manpower of Detroit, the local operation of Manpower, Inc., a supplier of temporary and contract staffing personnel, is sponsoring Career Expo '96 from 10 a.m. to 8 p.m. Tuesday, April 30, at the Southfield Civic Center, 26000 Evergreen, between 10 and 11 Mile.

Operation: ABLE, a non-profit organization that provides employment and training services, also is a participant in Career Expo '96. It will provide career advice and information for attendees.

Potential job seekers can learn about career possibilities with Manpower in the fields of office/clerical, technical, engineering, information technology, packaging, assembly, customer service and marketing.

The White House was said to be upset by the spoof site as it might confuse the two, but had no plans to do anything about it.

In closing, my source of information on the spoof site has an interesting slogan as part of his signature: "A rumor without a leg to stand on will get around sooner or later."

Emory Daniels may be contacted via E-mail at [emory@oeonline.com](mailto:emory@oeonline.com). These columns are archived online at <http://oeonline.com/titide/mark/emoryd/> archive.html.

at a variety of businesses throughout the metro area. Applicants will be given the chance to learn how they can experience Manpower's training programs. These programs include Skillware computer application training and "Putting Quality to Work." Manpower's employee soft-skills training program. Information will be available about Manpower's benefits, including health and life insurance, holiday and vacation pay, and additional bonuses and recognition programs.

Presentations will be made throughout the day to inform job seekers about interviewing tips, successful networking, the characteristics of a quality employee and employment trends. A resume workshop will be held.

"Dressing for Success" will be a highlight of the event. At 6 p.m., Casual Corner will provide a fashion show for the career-minded individual. Drawings for prizes will be held throughout the day. The grand prize drawing, a weekend trip to Toronto, will be held at 8:30 p.m. Manpower provides employment annually to 1.5 million people through 2,000 offices in 41 countries.