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CPAs & WEALTH ADVISORS



Recordkeeping for your Principal Residence

It was last May that we covered the exclusion of gain on sale or exchange of your principal residence. From that alert, you learned that most homeowners can exclude up to \$250,000 of the gain realized on the sale of a principal residence. Married couples filing jointly may exclude up to \$500,000.

With the significant rise in home values over the past few years, many homeowners who have owned their homes for any significant period can easily exceed the \$250,000/\$500,000 exclusion amounts. This is why homeowners need to keep very good records of expenses if their gain is greater than the exclusion amounts.

The kinds of expenses we mean increase the tax basis of your home and therefore decrease taxable gain. They fall into two basic categories: 1) those incurred at the time you buy your home and 2) those made for improvements that materially add to your home's value or prolong its life. Making the expenditure is not enough. You must keep receipts, canceled checks or other proof.

Acquisition costs to be alert for include:

- Inspection fees (termite, structural, radon)
- Transfer taxes
- Notary fees
- Legal fees
- Closing costs
- Deed and mortgage recording charges
- Appraisal and evaluation fees
- Title search costs
- Title insurance premiums, and
- Survey costs

Improvements, alterations, replacements, and additions that typically reduce gain include:

- New roof
- Additions (porch, deck, terrace, patio, garage)
- Bathroom renovation
- Kitchen remodeling
- Fences and gates
- Sprinkler system
- Central heating or air conditioning equipment
- Heating oil tank
- Insulation
- Intercom system
- Vinyl siding

- New gutters, leaders, and drainpipes
- New stairs, walkways or driveway
- In-ground swimming pool
- Storm windows and doors, screens
- Telephone and cable outlets
- Electrical wiring, service panels, and outlets
- Septic tank (new or replacement)
- Conversion of basement or attic to living space
- Moving or paneling of walls or partitions
- Fireplaces
- Trees, shrubs, and topsoil
- Security system
- Closets, cupboards, or room dividers, and
- Window replacements

Please be aware that not all home-related expenses will reduce your gain. Expenses that keep your home in good repair usually won't reduce your gain unless they are part of an extensive remodeling or renovation plan.

This tax alert covers only the surface level of recordkeeping for your principal residence and navigating the exclusion of gain on sale or exchange of your principal residence. Each taxpayer's facts and circumstances are different and the tax rules in this area are complex. Please contact us if you have questions, want more information, or would like us to help you with a specific situation involving the exclusion of gain on sale or exchange of your principal residence, so that by working together we can deliver the best tax results for you.

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