Retirement Planning Insights

May 2023

Tenon Financial Happenings

- Website pics and dance competitions

Retirement Planning Happenings

- Capital gain income exclusion on selling your house

Tenon Financial Happenings

Updated team pictures on our website

Now that Michelle has joined the team, it was time to get some new pictures of us up on the Tenon Financial website.

Last month Michelle came down from Boston to meet me at the office in Metuchen, New Jersey to get some photos taken by my good friend Sara. Thankfully, the weather was perfect for an outdoor photo shoot.

It was definitely time for new pics. Obviously, since Michelle joined, we needed to get some professional pictures of her for the site. But also, the existing pictures of me were going on five years old.

I don't want to be one of those people where you meet them in person for the first time and think to yourself, "DANG…clearly your pictures are REAL old!"

I'm not saying people need to update their website photos every few years. But if the pictures of you on your site are old enough to be your child, it's probably time to update them!

You can check out our website's homepage to see which team pic made it up there. And you can see our individual pics in the who we are page.

And here's one I like that didn't make it up to the website. You can't see it all here, but there is some really cool wall art painted by a local artist in the background:

In other news, I spent two of the weekends in April at my daughters' dance competitions. One was at the Marriott at Newark Airport and the other was at a performing arts theater in downtown Trenton, NJ.

I thought I'd share two random observations from these places:

1) Apparently price gouging is legal when selling snacks and drinks at an airport hotel

2) There is absolutely nothing going on around downtown Trenton on weekends; even the Starbucks is closed!

But seriously, think about how desolate a place needs to be on weekends for the local Starbucks to decide it's not worth opening…

That's all for this month's random musings. Enjoy your May. See you in June!

-Andy

Retirement Planning Happenings

When you can exclude from taxation the gain on selling your primary residence

The U.S. income tax code is an odd and complicated animal. It's not only used to generate revenue for the government, but it's also used to try to encourage (or discourage) certain behaviors. More on that in a bit.

The best way to think about the U.S. tax code is that ALL income is considered taxable, unless it's specifically carved out from being taxable.

For example, the payout from a life insurance policy is specifically excluded from being taxable. As are gifts received from others. As is a certain amount of gain on selling your primary residence.

Here's where the part about using the tax code to encourage certain behaviors comes into play… Promoting and fostering home ownership has been a political initiative for many decades. One way to do that is to build into the tax code provisions that benefit homeowners.

For example, there's a reason why interest paid on mortgages on primary residences is eligible to be tax deductible; to give some incentive to people to buy homes, even if they need a mortgage to do it.

Another part of the tax code that's preferential to homeowners is the Internal Revenue Code's (i.e. THE tax code) Section 121, in which it carves out from taxation some or all of the gain on selling one's primary residence.

Let's step back first and talk about what a gain is: when you sell something for more than what you paid for it, that's a gain.

And recall I said that, by default, all income is considered taxable unless it's specifically excluded form taxation. With that in mind, selling something at a gain is generally taxable, where the amount of the gain is what you'd normally have to pay tax on.

An example would be you bought a stock for $100 and later sold it for $120. Your gain on the sale would be $20. And that gain would be taxable, because that $20 of gain is money or income you didn't previously have.

In the case of selling your primary residence for a gain, Section 121 of the tax code allows you to exclude up to $250k of gain if you're single, or up to $500k of gain if you're married.

There are some conditions that need to be met to qualify for this exclusion. Specifically, you need to have owned and lived in the home as your primary residence for at least two years out of the five years leading up to the date of the sale.

The two years don't need to be continuous. So long as you can cobble together at least 730 days of ownership and use (as your primary residence) of the property over the five years up to the date of the sale, you meet the eligibility.

For example, assume you've owned the property for the last four years. You clearly meet the two-year ownership test.

However, perhaps it's now your second home that you only visit on occasion as a vacation property, and you haven't actually lived in it for the last year. BUT, you lived in it for the three years before that. If you were to sell the house now, you'd meet the two-year use test.

There is A LOT more to it than this. Such as what happens if you divorce, your spouse dies, you have to move because of work or health conditions, you are in the military and get sent away on active duty, etc. These life events affect eligibility in various ways.

And what if you've rented out the place for a portion of the time you owned it? That also impacts how much can you can exclude.

For more information about the various nuances involved, check out **episode 71** of the Retirement Planning Education podcast.

And for even more information - straight from the horse's mouth - check out **IRS Publication 523.**