

Better Homeowners

Don't Let Capital Gains Tax Surprise You



If you've owned your home for a long time, chances are its value has increased—maybe even doubled, tripled, or more. But did you know that a law written in 1997 still limits the amount of capital gains tax exclusion, despite skyrocketing home prices?

Currently, homeowners can exclude up to \$250,000 in gains if single or \$500,000 if married filing jointly when selling their primary residence, as long as they've lived there for at least two of the last five years. But with today's home values, more sellers are finding themselves exceeding this exclusion and facing a significant tax bill.

More Homeowners Are Now Affected

In 2023, nearly 8% of home sales surpassed the \$500,000 capital gains exclusion. However, in high-cost states like California (28.8%), Hawaii (23.8%), Washington, D.C. (22.1%), Massachusetts (17.9%), and Washington State (15.2%), the numbers were far higher, according to CoreLogic.

What Happens If You Exceed the Exclusion?

If a homeowner sells their home for more than the exclusion allows, the excess profit is subject to long-term capital gains tax rates of 15% to 20%, plus an additional 3.8% net investment income tax for high earners.

For example, if a married couple sells their home with \$1 million in gains, they can exclude \$500,000, but the remaining \$500,000 is taxed at these rates. Depending on their income bracket, they could owe between \$95,000 and \$119,000 in taxes; an expense many homeowners don't anticipate.

How to Reduce Your Capital Gains Tax Liability

The key to minimizing capital gains tax is increasing your home's cost basis, which is done by tracking capital improvements made over the years. Many homeowners are aware that large-scale renovations count, but small-dollar upgrades also qualify and can add up significantly over time.

What qualifies as capital improvements:

- Kitchen and bathroom remodels
- New roofs, HVAC systems, and water heaters
- Adding a deck, patio, or additional living space
- Energy-efficient upgrades like new windows or solar panels
- Permanent landscaping enhancements, like retaining walls or irrigation systems

However, repairs and maintenance (like painting, fixing leaks, or replacing worn carpet) typically do not qualify unless they are part of a larger renovation.

The Importance of Tracking Expenses

To take advantage of these tax-saving opportunities, homeowners must document their improvements throughout their entire homeownership.

- Keep receipts for materials and labor
- Take before-and-after pictures of major renovations
- Save contractor invoices or permits for work done
- Maintain a running list of all home upgrades

Without proper records, homeowners could lose out on thousands in potential tax savings.

Stay Informed and Plan Ahead

The capital gains tax law may not have adjusted to today's market, but smart homeowners can take proactive steps to minimize their tax burden. If you're thinking about selling, now is the time to gather your records and consult with a tax professional to ensure you're maximizing your cost basis.

For more information, download [IRS Publication 523](#) and our [Homeowners Tax Guide](#) for a detailed look at what qualifies.

If you have any questions about how today's home values impact your potential sale, feel free to reach out...I'm happy to help!



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