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Windsor News Release

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REAL ESTATE AND YOUR TAXES

The idealistic goal of Taxes is supposedly to provide for the expense of services to a Community, State or Nation that can only be conducted by the government of that community. We pay property tax so that the Municipality can maintain roads for all. We pay Federal Tax so that the Nation can provide a military defense force.

Unfortunately, from bottom to top, and from top to bottom, so much of this money is subject to waste, corruption and hidden agenda.

To explain in detail the taxes associated with your life is as difficult as explaining the complete physiology of the human body. We can say it has an outer layer of skin and a framework of bones plus various organs but this is elementary. Tax codes are similarly complex, but I will try at least to give you information about your real estate transactions and what tax regulations may come into play. From there, you can consult you specialist tax advisor.

Turbo-Tax cannot help you with complex issues. In fact, do beware of using Turbo-Tax at all, especially if you make over $100,000 per annum. You may be missing out on some deductions. If you keep good records, even a complicated return will only cost a few hundred dollars to be prepared by a professional.

BASIC TAX RATES 2014

See Below

Tax Rate	Single	Married/Joint & Widow(er)	Married/Separate	Head of Household
10%	$1 - $9,075	$1 - $18,150	$1 - $9,075	$1 - $12,950
15%	$9,076-$36,900	$18,151 to $73,800	$9,076 to $36,900	$12,951 to $49,400
25%	$36,901 to $89,350	$73,801 to $148,850	$36,901 to $74,425	$49,401 to $127,550
28%	$89,351 to $186,350	$148,851 to $226,850	$74,426 to $113,425	$127,551 to $206,600
33%	$186,351 to $405,100	$226,851 to $405,100	$113,426 to $202,550	$206,601 to $405,100
35%	$405,101 to $406,750	$405,101 to $457,600	$202,551 to $228,800	$405,101 to $432,200
39.6%	over $406,750	over $457,600	over $228,800	over $432,200

As you can see, taxes depend on how you file. For most of our discussion here, I will assume we are talking Married filing jointly:-

Sale of Personal Residence:

If you make a Capital Gain of less than $500,000 ($250,000 for a single person), you have ZERO CAPITAL GAINS TAX. You don't even have to mention it in your return, provided you lived in it 2 out of the last 5 years. You may also be the owner of 2 personal residences depending on the circumstances.

Definition of Capital Gain:

In general terms, a capital gain is a gain on an asset held longer than 12 months. If you buy and sell an asset in less than 12 months it will fall into your Ordinary Income and be taxed accordingly.

Capital Gains Tax Rates:

If you fall into the 10% to 15% tax bracket (see previous) your Capital Gains rate is zero; 15% Capital Gains Tax if you fall into the 25% to 35% regular bracket; 20% if you are paying 39.6% on ordinary income.

Calculation of a Capital Gain:

A capital gain is not just the sale price less the cost price. The cost price may be increased by the additional costs associated with the purchase plus the expense of upgrades and improvements. This reduces your gain. Some costs of selling also cut your actual sale value, thus reducing your gain even further.

Sale of Investment Properties:

This is where it gets really interesting.

Most people who own a rental unit know that you can write off a number of expenses against the income, that the cost basis can be increased with certain additional capital improvements - and that you can depreciate it for tax purposes.

The puzzle comes when you want to sell. The capital gain is the sales price less the cost basis after depreciation. In many cases this produces a Capital Gain. This will attract capital gains tax - - - OR, you can defer that tax through:-

A 1031 Exchange: The basic idea in this part of the I.R.S. anatomy is that, if you substitute all or part of an investment with another investment, you are not deemed to have sold at all provided you follow a careful procedure.

First, you must never touch the proceeds of the sale with your own hands. That is, you must use a third part facilitator as the go-between 'banker'. Second, you have 90 days from closing to identify the substituted investment and 180 days to close. The exchange must be of "like-kind" property although this can be tweaked!

The 1031 Exchange is a handy means of avoiding capital gains tax until later. I can arrange a personal and free consultation with 1031 specialists for any of you wanting to investigate this possibility.

However, there are few escape tunnels from the following insidious tax invasion - - The Net Investment Income Tax.

Obamacare Secret Funding:

The Net Investment Income Tax is not a Real Estate Sales Tax as some would have you believe.

However, it is a potential 3.8% flat tax on certain income that may, in effect, be the result of a real estate sale.

The simplest way to think of this is as follows:- If your Adjusted Gross Income (AGI), when added to Capital Gains, results in a figure exceeding $250,000 for Married filing Jointly ($200,000 for a Single person), the amount above $250,000 will likely be taxed at 3.8%.

The sale of a Real Estate Investment can be substantial. Even part of the sale of your personal residence could fall into this calculation (i.e. any excess profit over the $500,000 exempted).

If, for example, you make $500,000 profit on such a sale, and your AGI was previously $150,000, your ammendment AGI is suddenly $650,000. $400,000 of this is taxed at 3.8%, or $15,200 tax. This is a penalty on top of any Capital Gains Tax you may be paying.

This "Net Investment Income Tax" was discreetly included with the Affordable Care Act and basically has richer folk with investments paying for medical costs of those at the lower end.

Note: The Net Investment Income Tax (Section 1411 I.R.S. Code) is complicated further if you have other Investment type income and, in any event, you need a qualified CPA to examine your individual circumstances.