

AHLBECK & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

FINANCIAL & BUSINESS INFORMATION

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Home Sweet Tax Surprise

Many of you have recently received your real estate reassessment notice and we wanted to express our sympathy. Seriously, this is just one more wake-up call that property values have increased substantially in the past 10 years. Normally, we don't think about the value of our homes unless we are planning to sell them, but that can be too late. Why should you be concerned?

The tax laws changed 10 years ago to allow exclusion from tax for a gain on the sale of a personal residence of \$500,000 for a couple filing jointly or \$250,000 for a single taxpayer. This exclusion fully applies only if certain ownership and use tests are met (i.e. you have owned the home and used it as your primary residence for at least two of the five years before the sale).

With prices rising as they have been, your gain can easily exceed those amounts if you have owned your home for a number of years. Not only could you face a 15% tax on the gain, but the additional income could result in loss of certain itemized deductions and personal exemptions. In some cases, it might even cause you to become subject to the dreaded Alternative Minimum Tax.

As a result, tracking the basis of your residence has become an important tax planning function. The basis of your residence is the original cost plus any improvements you have made. These can include installing central air, adding a room or enclosing a porch, new plumbing or wiring, installing a fence or adding to the landscaping. Even installing permanently attached fixtures such as ceiling fans or shutters can add to your basis. Your original cost (if you bought your home in the past 10 years) is shown on your closing statement. However, if your home is older, you may have "rolled over" the proceeds of a prior sale. In that case, that information would be reflected on your tax return for the year the home was purchased.

All you need to get started is a notebook or computer spreadsheet. We suggest that you keep the receipts for the additions in one place as well. When did we put that shed in the back yard? Well, the receipt might be in that pile of old tax files. What a good incentive to start cleaning out those files and get your home improvement records in order. It could end up saving you money in the end!

Reminder: If you make estimated tax payments, the second estimate for 2007 is due June 15!

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