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A newsletter for clients of the Wilson Financial Group 205-868-9297

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After a Divorce or Loss of Spouse / Selling Your Home

Often there are many reasons for selling a home... but in the case of divorce or loss of spouse, there are special tax rules.

In recent years real estate has not appreciated like in the past. Therefore people may have sold their home and not realized that taxes could have been due. This was because there was not any increase in the home value, so homeowner did not even realize there could have been taxes.

Selling your home is taxed based on the capital gains or how much the home appreciated in value. For example, if you purchased a home for $100,000 some 20 years ago and then sell it for $150,000 today, there will exist a $50,000 gain. That gain will be taxed based on the current capital gains tax rates. If you have owned and used the house as your primary home for two years during the five years before you sell it, a married couple can exclude gains of up to $500,000 of gains from capital gains taxes, while singles can exclude up to $250,000 of gain. If only one spouse lived there for two out of five years, only $250,000 of gain is tax free.

If you do not meet the two out of five rule, there are exceptions called "quick sale " rules that happen when you have to sell due to a job change, illness or an unforeseen circumstance, such as a divorce. Divorced and separated spouses can use the exclusion, too, even if only one has lived in the home for two of the five years before the sale. If either spouse meets the two-of-five year rule, and one is living there then each can exclude up to $250,000 when the house is sold.

In a recently enacted law, widowed spouses may now extend the period of time during which they may take up to $500,000 of home-sale profit tax-free, rather than being restricted to the $250,000 amount allowed for single homeowners.

Previously a surviving spouse was entitled to the $500,000 exclusion only when they could file a joint return with the deceased spouse, which was available only for the tax year in which the spouse dies. The current law now allows the surviving spouse to use the $500,000 exclusion if the home is sold within two years of his or her spouse's death.

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