

# Tax on capital gains varies when building a house to sell

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Tribune Content Agency

**Q:** What if you build a house but never rent it or live in it and then sell it? How is the gain taxed?

**A:** The important information is whether you lived in the home or not. Since you never lived in the home, you wouldn't get any IRS benefits as a homeowner selling his home. Those benefits are substantial. If you live in a home for two out of the last five years, you can exclude \$250,000 in profits (or, if you are married, \$500,000 in profits) from any federal income taxes. But this federal tax benefit would not apply to your situation.

Let's assume your question arises from a situation in which you purchased land, built a home, were planning to live in it but never did and now you sell it for a substantial profit. Let's say it's \$100,000 profit. What happens from a tax perspective?

We're sure we'll get letters from tax practitioners on this one, but to keep it simple we're also going to assume that you've owned the property for at least a year and also completed the home at least a year ago. Having assumed all that, you could be said to own an asset that you've had for more than one year and when you sell it, you'd pay capital gains taxes on the profit you make from the sale. So, if this \$100,000 profit might require you to pay about \$24,000 in taxes to the IRS (the amount will depend on other deductions or credits you may have).

On the other hand, if the building of the home was part of a business to build and sell homes, the home might be considered more like the inventory of your business and in this instance, you would not get the benefits of capital gains rates on the sale of the home.

If this was the case, we'd assume you'd pay around \$35,000 in taxes to the IRS. (Remember, we're trying to keep it simple and give you a broad overview of the

picture; not drill down to the details or give you precise numbers.)

In some ways, your question is a trick question because it does not give the whole picture or provide enough information to make a reasonable guess.

Simply put, if you sell a primary residence that you've live in for at least two out of the last five years, you probably wouldn't have to pay any tax on the sale, as long as your profit is below \$250,000 if you're single and \$500,000 if you're married. If you are in the business of building homes for sale to other people, you'll have the greatest amount to pay in federal income taxes. And, then there is the middle ground where a variety of factors could lead to variable outcomes. For those complicated scenarios, call your accountant or tax preparers.

But the devil is in the details: You might be better off (from a tax perspective) if you rent the home for a couple of years and then sell it. Even better, if you like the home you built and can sell your current residence, you might consider doing just that and moving into your new home. If tax laws stay the same, any profit on the home you just sold would probably not get taxed (if they are less than \$250,000) and if you live in this home for two years, you can sell it then and keep all the profits without paying tax (again, if the profits are less than \$250,000).

There are some exclusions and limitations to the IRS home sale rules. You can get more information at [www.irs.gov](http://www.irs.gov).

*(Ilyce Glink is the creator of an 18-part webinar+ebook series called "The Intentional Investor: How to be wildly successful in real estate," as well as the author of many books on real estate. She also hosts the "Real Estate Minute," on her YouTube channel. Samuel J. Tamkin is a Chicago-based real estate attorney. Contact Ilyce and Sam through her website, ThinkGlink.com.)*

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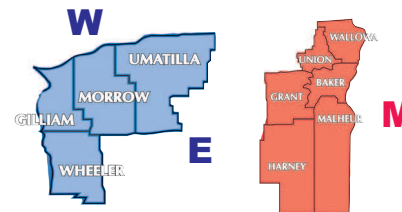
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