



Please note that this is the first two pages of a three page document. [Log in](#) to obtain access to the complete tutorial. If you don't have a username yet, [registration](#) is free. We do not spam our user community.

Step 4: Calculate your tax basis in the property

While you have your calculator or your spreadsheet handy, you may want to calculate the total of funds you have spent while owner of the property. This is called your **basis**. It is the sum of the purchase price, purchase fees, and all money you have paid to improve the house. You must know the basis if you are to calculate the profit you must recognize or defer on your annual tax return.

Potential additions to your basis are discussed below. You might want to refer to the [hometoday.com property basis worksheet](#) as you read the definitions:

Purchase Price: The price you paid for your house. You can probably obtain the exact figure from the settlement statement you received when you closed on the house.

Purchasing Fees: You were the buyer at the close, therefore, you might have paid any of the following:

- Attorney fees
- Escrow fees
- Documentation fees
- Title fees



You are allowed to add any charges to your purchase price which represented charges to obtain the house. You are not allowed to add any fees which represented charges to obtain your mortgage. Examples of expenses you cannot add to the basis include loan processing fees, loan review fees, credit report fees, or appraisal fees.

For a detailed discussion of what costs you can include in your basis, order **IRS Publication 523-Selling Your Home**. You can order publications on-line or download them to your computer by visiting the Internal Revenue Service site at <http://www.irs.gov/>.

Improvements: Anything you buy at the home improvement store and attach to your house, inside or out, and which will last at least one year, constitutes an improvement. Any work you have done which results in something attached to your property, inside or out, and which will last at least one year, is also an improvement. A list of improvements is included on the property basis worksheet. It is not exhaustive; you can probably think of some that aren't included.

Maintenance on your property is **not** an improvement. Examples of items that are not considered improvements include

- Housecleaning
- Lawn mowing or tree pruning
- Changing light bulbs
- Annual plants (they don't last a year, but perennials **are** considered an improvement)
- New garbage cans unless you intend to leave them in the house when you sell



- Tax assessments for neighborhood improvements (you already receive a deduction for property taxes on your annual tax return)

The key to an improvement is that it lasts at least a year and is attached to your property.

A special rule in the tax law allows for "fix-up" expenses. These are expenses you incur to place your house in showroom condition in preparation for selling. Any expenses you incur during the ninety days before closing date can be included in your basis. The problem is that when you incur the expense, you don't know your exact closing date yet. That is a risk you take. Note that expenses in the list on the previous page (except taxes) would qualify as fix-up expenses if you spent the money within three months of closing.

Keep in mind that the tax law allows you to include your expense if the date you **paid** for it falls within the three month period. The pay date means the day you paid the cash or wrote the check for the expense. To buy an extra week or two, consider paying fix-up expenses with a credit card. The paid date becomes the date your bill is due, not the day you picked up your flowers and light bulbs.

Previously deducted losses: If you incurred damage to your property that was not reimbursed by your insurance company, you should have taken that as a deduction on your tax return in the year it occurred. Since you already received a benefit for it (reducing your taxable income in a previous year) you cannot include it in the cost of your house. Therefore, it must be subtracted from your basis.

Easement proceeds: If you received cash for allowing an entity access to your property, you, in effect, already sold a portion of your property. Therefore, reduce your basis by what you sold it for.

Depreciation: If you are renting part of your home to obtain rental income, or if you use part of your home as a "home office", you are probably taking an annual deduction on your tax return for the cost of wear and tear on the property. This cost is called "depreciation." Since you have already received a benefit in a previous taxable period, you must reduce your basis by the amount of the benefit received.

Selling Costs: These were described in the section dealing with [calculating your expected net proceeds](#). All these costs increase your basis in the property. In general, if you have not previously received a deduction on a tax return for the expense, it increases your basis. Recognize that expenses are for services or products you buy, not just cash outflow. Using that definition helps to distinguish between a mortgage payment (not an expense) and a home inspection (definitely an expense).

You'll want to recalculate your basis after your actual closing to figure your exact basis. Doing it early allows you time to find all the receipts and other evidence of improvements that you packed away and must retrieve.

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