

Taxes on Selling a House in California: What to Expect

CAPITAL GAINS TAX:

If you make a profit from selling a home in California, it is likely that you will be required to pay capital gains tax.

A capital gain is the return made when you sell a property that has increased in value, such as a house. An example of this would be if you purchased a house for \$200,000 and sold it for \$500,000, resulting in a capital gain of \$300,000.

On a state level, the California Franchise Tax Board (FTB) classifies capital gains as ordinary income and the tax rate may range from 1% to 13.3%. This depends on various things such as your income tax bracket.

On a federal level, capital gains may be considered either short-term or long-term which have different tax rules.

- **Short-term capital gains** are when you sell an asset within a year of purchasing it. Those gains are included in your ordinary income and taxed according to your tax bracket.
- **Long-term capital gains** are any profits made from the sale of an asset after at least a full year of ownership. For a home sale, those gains are taxed according to the following table.

Long term capital gains tax table.

Single Filers:

0%	\$0 to \$83,350
15%	\$83,351 to \$517,200
20%	\$517,201 or more

Married filing jointly

0%	\$0 to \$83,350
15%	\$83,351 to \$517,200
20%	\$517,201 or more

The IRS and FTB provide a tax break for home sellers who meet certain conditions. For single filers, the maximum exclusion amount is \$250,000, and for married couples filing jointly, it is \$500,000.

To qualify for the full exclusion amount, according to IRS Publication 523, the following criteria must be met:

- The home must be your primary residence.
- You've owned the home and have lived in the home for at least 2 years in the 5 year timeframe before selling.
- You didn't purchase the home through a 1031 tax exchange.
- You haven't used this exclusion on another home in the last two years.
- You aren't subject to expatriate tax (a government fee for people that renounce their citizenship).

CALIFORNIA TRANSFER TAXES

In California, transfer taxes may be charged on land or real property sales. A transfer tax is a fee that is paid when you sell your property.

California's documentary transfer tax varies depending on the location within the state.

The law permits general law counties and cities to charge 55 cents per \$500 of property value

Here are some examples of what the documentary transfer tax looks like in a few of California's largest cities:

Location	Transfer tax rate on a \$500,000 home.
San Diego	55 cents per \$500 \$550
Sacramento	\$1.375 per \$500 \$1,375

San Francisco	\$3.40 per \$500	\$3,400
Los Angeles	\$2.25 per \$500	\$2,250

The amount varies by location and can be increased by charter cities or counties.

GENERAL PROPERTY TAXES OWED

Property taxes in California are paid in two payments. One in November and one in February. The seller is usually responsible for these taxes, but the payment responsibility may be transferred to the buyer.

Example, if the David and Loree pay the first installment in November as the current owner and then sell home in December, The buyers is now responsible to cover the second installment due in the spring. Any pro-rations are done at time of closing through escrow.

SELLING AN INHERITED HOME

For those inheriting a property, there are no estate or inheritance taxes in California. However, the heirs do take on any debts associated with the property, and if it is sold, any gains are taxable.

Fortunately, the value of inherited assets is adjusted by a stepped-up basis, meaning that no matter how much the home has appreciated in value since originally purchased, the decedent's heirs are not responsible for paying taxes on those gains if they choose to sell the home.

Of course if you choose to keep the home and rent it out lets say, and the property increases in value during that time, then you will pay capital gain taxes on the increase in equity.

I hope this helps give a few brief explanations.

Please contact your accountant to get the specifics for your situation.