MONEY MANAGEMENT

THE TAX CONSEQUENCES OF SELLING OR RENTING YOUR HOME

Homeowners who want to relocate or move to larger or smaller quarters should determine whether it's in their best interest to sell or rent their current residence.

In making this decision, the Nevada Society of CPAs urges homeowners to consider the impact their decision will have on their tax bill and personal financial situation.

WHY SELL?

Selling a principal residence is the best — and often the only — option for homeowners who need the equity in their current home for a down payment on a new one.

Homeowners who realize profits on a sale of their primary residence may qualify for a special tax break that can help to put their next home within financial reach:

The tax law allows homeowners to defer taxes on their real estate gains if they purchase or construct another residence of equal or greater value within two years before or two years after the sale date of their principal residence.

So, for example, if you realize $50,000 profit on the sale of your home which is taxed at the 28 percent tax rate, you'll be able to defer $14,000 in taxes by purchasing another home of equal or greater value within the specified time period.

Older homeowners may qualify for an even greater tax break.

Generally, individuals who are age 55 or older before the date of the sale of their residence and have occupied the residence for three out of the last five years may exclude from their income a gain of up to $125,000 ($62,500 for a married individual filing separately.)

This tax break is especially advantageous to individuals who choose to trade down to a less expensive resident and plan to rely on the profits from the home sale to support their retirement lifestyle or other special needs.

RENTING A HOME TEMPORARILY

A homeowner who puts his or her former principal residence on the market and then encounters difficulty in selling it, may by able to rent the residence for a temporary period and still defer gain on the sale. However, the homeowner must demonstrate that the rental is in contemplation of the sale.

Otherwise, the personal residence is deemed to have been converted to a rental property, in which case the deferral of taxes on the gain is not allowed.

For example, a homeowner relocates as a result of a job charge, puts his or her residence on the market, and buys a new home in another city. After several months, the old residence doesn't sell.

Preferring to have the house occupied rather than empty during the sales period, the owner then decides to rent the residence while continuing efforts to sell it.

Under conditions like these, the IRS typically views the owner's rental action as a temporary measure and is likely to allow the gain on the sale of the residence to be deferred.

On the other hand, if the homeowner relocated and rented out the former residence without ever trying to sell it, the former residence will most likely be treated as a rental property for tax purposes.

CONVERTING A PERSONAL PROPERTY TO A RENTAL PROPERTY

For some individuals, converting a former residence into a rental property may offer greater financial rewards. It gives owners the opportunity to generate steady income.

What's more, although owners cannot defer the gain on the sale of a rental property, they are entitled to a wide range of tax deductions that can sharply reduce their tax bill.

Mortgage interest, property taxes, and costs associated with operating and maintaining the rental property, including insurance premiums, repairs, and depreciation, may be deducted from rental income.

Net losses (generally up to $25,000) can then be subtracted from the owner's gross income. Losses that cannot be deducted in the year incurred can be carried over into future tax years.

Since special tax rules apply in the year a property is converted to a rental, an owner may want to consult with a tax professional, such as a CPA, before making the conversion.

Finally, CPAs recommend that you convert your former residence to a rental only if you're prepared to take on the responsibility of acting as landlord and are certain the conversion will not be detrimental to your financial well-being.

Money Management is public service announcement on personal finance prepared and distributed by certified public accountants. Nevada Society of Certified Public Accountants 5250 Neil Road, Suite 205, Reno, Nevada 89502.

ESSENCE

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Mail, a mail-order catalog marketed to African-American women; Essence Licensing, which currently offers a line of eyewear, sewing patterns and fashion hosiery; Essence Art Reproductions, which markets African-American art; and Essence Television Productions, which produces in part the Essence Awards show, seen as a prime-time special on Fox Broad-

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