Will The Capital-gains Tax Exclusion for Homeowners Be A Target In The Impending "Fiscal Cliff" Debacle?

Homeowners Beware! The $250,000-$500,000 tax-free exclusion of capital gains on the sale of your home could very well be a target in the U.S. Administration's efforts to reduce the federal debt. This capital gains exclusion is a housing subsidy that is embedded in the tax code and will most likely be on the chopping block in the "fiscal cliff" negotiations on Capitol Hill.

Many homeowners with properties for sale are urging that their real estate agents get them a buyer. They say the reason is the fiscal cliff.

If the Bush tax cuts are allowed to expire and the capital-gains tax rates go up on Jan. 1, sellers could potentially owe substantial taxes on their sales. The result- sellers are racing to close transactions prior to 2013.

Tax experts report that almost all real estate write-offs, including the capital gains exclusion, would vanish in a simplified federal tax code. And this isn't the only write-off that affects real estate owners. Also on the chopping block are deductions for local and state property taxes, exemptions from taxation of mortgage amounts forgiven by lenders in short sales or loan modifications, and federal tax exemption for interest on state government bond issues used to help provide mortgages for moderate-income home purchasers.

Projected to save homeowners more than $86 Billion by 2014, the exclusion of home sale profits will allow taxpayers who owned their principal residences for two of the five years preceding the sale to avoid paying capital gains taxes on up to the first $250,000 (single tax filers) and $500,000 (married joint tax filers) of the profit the make as a result of the sale.

Pocketing the profits of the sale of the home without a tax penalty is available to qualified owners once every two years. This is of particular interest to retirees and those nearing retirement because it allows them to not have to pay federal taxes on the gains from the sale of their home and to use the proceeds for retirement planning.

Senator Alan Simpson and Erskine Bowles, former chief of staff for President Clinton , are asking to eliminate or greatly restrict most of the current tax deductions in an effort to reduce the nation's debt. The deficit commission may make one exception for housing- they want to change the mortgage interest deduction to a 15% tax credit. Homeowners may pay ordinary income taxes at lower rates but might lose some of the advantages that have been developed to encourage home ownership.

Homeowners need to keep an eye on Capitol Hill- there is the real and distinct possibility they may lose the largest single tax-free benefit afforded homeowners. Now that the real estate market seems to be turning around, these tax implications raise some serious concerns.

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