

## Your Real Estate Advisor



### Accounting Capital Improvements To The Home

*One of the most neglected and overlooked areas of record keeping has to do with capital improvements made to a person's principal residence. Part of the reason is that many people don't know what constitutes a capital improvement, and another major part is not making enough effort.*

The lack of effort comes from the fact that most homeowners know that as long as they buy a home more expensive than the one they're selling, the tax on the gain will be deferred. If it is deferred, then why make the effort of keeping records.

The reason is that someday, you might not reinvest in another home or you may elect to take the once in a lifetime exemption which in either case will trigger the calculation of gain. One of the single most important areas of reducing gain is to accurately record the capital gains made to a home during ownership.

Repairs on a principal residence are considered maintenance and are not treatable as expenses or capital improvements. These items would be routine maintenance on the property.

Capital improvements can be added to the basis or cost of the property, thereby reducing gain. There are three simple questions that can be asked to identify a capital improvement:

1. Does it materially add to the value of the residence? Examples might be the addition of a fireplace, new fixtures, a pool, or a spa.
2. Does it prolong the useful life of the residence? This applies to improvements that, if not done, would shorten the property's economic life, such as a roof sealing, exterior paint, or a new furnace.
3. Does it adapt a portion of the home to a new use? Converting a garage to a family room or finishing a basement or an attic would apply to this rule.

Capital improvements needn't be large-dollar items. Money spent on landscaping, deadbolts, ceiling fans, mini-blinds, fences, alarm systems and similar items are all improvements that may apply.

*De La Guardia Group combines many years' experience, a thorough understanding of the real estate market, and cutting-edge technology to provide buyers and sellers with competent advice and proven results.*

