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Tax Advantages of Downsizing your Home

Outline

1. Introduction
2. Sale of a Personal Residence
3. Taxes on the Sale after the \$500,000 Exemption
4. Net Cash Proceeds from the Sale
5. How Would You use the Cash from the sale?
6. Do You Plan to Stay in the Area?
7. Do You Have enough Saved for Retirement?
8. Tax-Advantaged Investment Alternatives
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Sale of Personal residences

- Gain Exclusion of \$500,000 for married couples (\$250,000 for singles), when personal residences are sold.
- Must have lived in the home for two out of the last five years to qualify.
- Gain after exclusion is taxed at long-term capital gains rates.
- In 2018, the maximum long-term capital gain rate is 20%, versus the maximum ordinary income rate of 37%.

Net Cash Flow Calculation

<u>Personal Residence</u>	<u>Tax Due</u>	<u>Cash Flow</u>
Sales Price (A)	2,000,000	2,000,000
Purchase Price	<u>1,000,000</u>	
Gain on Sale	1,000,000	
Exclusion	<u>500,000</u>	
Taxable gain	500,000	
Tax rate (LTCG)	<u>20%</u>	
Tax on Gain (B)	<u>100,000</u>	<u>100,000</u>
Net cash flow (A-B)		<u>1,900,000</u>



Cash Flow Generated from the Sale

	<u>Residence</u>
Net Sales Price	2,000,000
Capital Gains Tax	<u>100,000</u>
Net Cash Flow	<u>1,900,000</u>

What would you do with \$1.9M if you sold your home?



How Would You use Cash from the Sale?

1. Do you plan to stay in the area, and if so, where?
2. Do you have enough saved for the essentials in your retirement years?
3. Do you want to help out your children or family?
4. What's on your wish list?



Do You Plan to Stay in the Area?

- Are you considering moving somewhere less expensive?
- Do you want to keep some money invested in real estate for the appreciation potential?
- If you moved, where would you go and what's the cost of living there?
- Do you want to rent or buy going forward?



Do You Have Enough Saved for Retirement?

- It's not unusual for retirement to last longer than 20 years these days. What if it lasts 30 years?
- How much savings do you think you'll need before you retire?
- Do you have a budget for your retirement years? Most people don't.
- Does your budget include unexpected needs – medical, early retirement, etc?



Tax Advantaged Investment Alternatives

- Regular IRA's, Roth IRA's, 401K Plans
- Small Business Retirement plans
- Real Estate – Especially in SF Bay Area
- Educational and Health Savings Plans
- Annuities – Guaranteed income for life
- Tax exempt inc – Muni's, Life insurance, etc

This list is not all inclusive. I provide free introductory meetings to anyone that needs guidance as to the type of investments that best suit their personal needs.



Questions & Answers

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Specializes in financial advise using
tax-advantaged investments to help
grow your savings faster!

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