

Home Ownership For Big Profits

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You have heard about the usual benefits of home ownership, but what about this strategy for big profits?
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The benefits of home ownership are written about and talked about again and again. Home owners get to build equity by buying instead of renting. They get a tax deduction for the interest paid on mortgage loans. They get even more equity from appreciation in house values. But you probably know all this.

{bot_wrgoogle}What you may not know is that there is an even bigger opportunity to profit from home ownership. It is due to a change in the tax law that was quietly made a decade ago. To really take advantage of this opportunity does require that you think about your home as an investment, and that you are willing to move every few years. But the profits can be very large.

Tax Free Profits From Home Ownership

The way the law used to be, you could sell your home and not pay capital gains tax on the profit, but only if you bought another more expensive home. Apart from that, you could take an exclusion from capital gains tax on the gain from your home once in your life. Thus you could down-size in retirement without having to pay tax on the increase in value when you sold your home.

The law was changed years ago though, allowing anyone to sell a home at a profit without rolling the gain into the next home and without paying any tax on it. There are certain rules of course. Talk to a tax expert for the more intricate rules, but essentially you are free to sell at a profit without paying taxes on the gain if you have lived in the home at least two of the past five years. Furthermore, you can take advantage of this every two years.

In other words, if you want to, you can move every two years, selling your home for a profit each time, and not pay capital gains tax. Or you can move out, rent the house for up to three years, and still sell it without a tax on the profit. There are some other rules (total gain excluded is limited to \$500,000, for example), but understand this simple law change, and you can see how home ownership can become very profitable.

For example, there was a man in Arizona who bought homes just to live in them for two years and sell them. He found houses that needed work, bought them cheap, fixed them up, and sold them for large profits after two years. A typical deal might involve buying a fixer-upper in a neighborhood of \$200,000 homes for \$120,000, and making it worth \$200,000 with \$20,000 worth of work. He could sell it for \$280,000 two years later.

Now, this was during the boom time in home prices, when 20% annual appreciation happened for years. But even if you buy a home for \$200,000 and do nothing, 5% appreciation means it will be worth \$243,00 in four years, still enough for a profit after selling costs. Buy smart and you could add another \$10,000 to that profit. Buy a fixer-upper that you can add \$50,000 in value to with \$20,000 in repairs, and you can see how this strategy can work, even if you don't do it every two years like this man did.

Now, what if you don't want to move every two years and make your homes into a business? Keep the opportunity in mind in any case. Remember, if you move for other reasons, and you are in a rising market, you could rent out your home (if you have the resources to buy the new home without selling this one) for up to three years.

In an area with 12% appreciation, that would mean a \$240,000 home is worth \$337,000 after three years. Assuming you had good renters who didn't damage the place (and whose rent covered the mortgage payment), that's an extra \$97,000 profit (on top of any gain up to the point when you moved) - tax free. Did you know that home ownership could be so profitable?

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