**Abstract:** Roughly two-thirds of Americans say they pay too much in federal taxes, according to a recent poll. When it comes to selling a home, however, a homeowner may be able to lower their federal tax bill with proactive planning. Here’s an example of how a homeowner selling a personal residence can make the most of applicable tax law.

**Home sale: Failure to plan may raise your tax bill**

As the saying goes, there’s nothing certain in life except for death and taxes. Roughly two-thirds of Americans say their federal income taxes are too high, according to a poll earlier this year from the University of Chicago Harris School of Public Policy and The Associated Press-NORC Center for Public Affairs Research. Similar numbers of respondents say the same about state and local taxes. But when it comes to selling your home, proactive tax planning can help you reduce your individual federal tax bill.

**A costly mistake to avoid**

Let’s say Tom is a soon-to-be married homeowner who is looking to sell his principal residence. If certain tests are met, an unmarried individual may be able to exclude up to $250,000 of taxable gain (up to $500,000 for married couples).

Just before the wedding, Tom sells the home he’d purchased 20 years earlier. The home had appreciated by $500,000. He and his future wife planned to move into her much smaller fixer-upper home after the wedding. As an unmarried taxpayer, Tom can exclude $250,000 of the gain from the sale of his home, leaving a taxable gain of $250,000 ($500,000 minus the $250,000 federal home sale gain exclusion). He owes 15% federal income tax on the gain, plus the 3.8% net investment income tax and state income tax.

Instead, suppose that Tom and his future wife had taken the time to seek tax planning advice. Rather than sell the house before the wedding, they might’ve kept it and lived in it as a married couple for two years. That would’ve allowed them to avoid the full $500,000 in taxable gain and the resulting taxes when they later sold it. Even if they sold his spouse’s fixer-upper home, the gain would likely be much smaller and may have been sheltered with her $250,000 home sale gain exclusion.

**Slow down and seek advice**

Proactive tax planning is generally worth the effort — especially if you have a lot at stake and/or tax rates increase. Even if you don’t need advice on the subject of home sales, other issues may be much more complicated and a lack of knowledge could lead to costly mistakes. Contact your tax advisor to get the best tax planning results for your circumstances.