PacificCPE

Taxes and Real Estate

Course #30951C

Taxes

2 Credit Hours

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REAL ESTATE AND TAX IMPLICATIONS

This course covers the tax rules related to the sale of a primary residence and the ownership of a second home, whether used personally or as a rental. It also explains how passive activity and at-risk rules impact the deductibility of investment losses, providing a comprehensive understanding of real estate tax considerations for individual taxpayers.

LEARNING ASSIGNMENTS AND OBJECTIVES

As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment.

SUBJECTS

Introduction
Sale of a Home
Rental Income and Expenses

Study the course materials

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

Objectives:

- Recognize the tax rules that apply when an individual sells his or her home.
- Identify some of the tax implications of owning a second home, whether or not for rental purposes.

NOTICE

This course covers the tax rules related to the sale of a primary residence and the ownership of a second home, whether used personally or as a rental. It also explains how passive activity and at-risk rules impact the deductibility of investment losses, providing a comprehensive understanding of real estate tax considerations for individual taxpayers.

Program publication date **9/15/25**

EXAM OUTLINE

- **TEST FORMAT:** The final exam for this course consists of 10 multiple-choice questions and is based specifically on the information covered in the course materials.

- **ACCESS FINAL EXAM:** Log in to your account and click Take Exam. A copy of the final exam is provided at the end of these course materials for your convenience, however you must submit your answers online to receive credit for the course.

- **LICENSE RENEWAL INFORMATION:** This course qualifies for **2** CPE hours.

- **PROCESSING:** You will receive the score for your final exam immediately after it is submitted. A score of 70% or better is required to pass.

- **CERTIFICATE OF COMPLETION:** Will be available in your account to view online or print. If you do not pass an exam, it can be retaken free of charge.

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INTRODUCTION

Real estate is generally the largest investment most individuals will ever have. Real estate is owned for both personal and rental investment purposes. The tax treatment of real estate is dependent on a number of factors, including the use of the property. This course explores the various factors that influence the tax treatment of real estate.

Chapter 1 takes an in-depth look at the tax rules that apply when an individual sells their main home. How is the gain or loss figured? What if the disposition is due to a foreclosure or repossession? How is the basis determined? What is the $250,000 exclusion?

Chapter 2 discusses rental income and expenses. Is rental income included in an individual's gross income? What rental expenses are deductible? How is personal use of a dwelling treated? How is depreciation calculated?

These and other related questions will be answered in this course.

CHAPTER 1: SALE OF A HOME

Chapter Objective

After completing this chapter, you should be able to:

- Recognize the tax rules that apply when an individual sells his or her home.

I. INTRODUCTION AND OVERVIEW

For most Americans, the largest investment anyone will ever have is their home. It is therefore essential that accountants be able to advise their clients on the various tax implications of selling a home. This chapter explains the tax rules that apply when an individual sells his or her main home.

II. MAIN HOME

This section explains the term "main home." Usually, the home an individual lives in most of the time is his or her main home and can be a:

- House;
- Houseboat;
- Mobile home;
- Cooperative apartment; or
- Condominium.

To exclude gain, an individual generally must have owned and lived in the property as his or her main home for at least two years during the five-year period ending on the date of sale.

A. SALE OF LAND ONLY

If an individual sells the land on which his or her main home is located, but not the house itself, he or she cannot exclude any gain he or she has from the sale of the land. However, if the individual sells vacant land used as part of his or her main home, and that is adjacent to it, the individual may be able to exclude the gain from the sale under certain circumstances.

Example

Bill buys a piece of land and moves his main home to it. Then he sells the land on which his main home was located. This sale is not considered a sale of Bill's main home, and he cannot exclude any gain on the sale of the land.

B. MORE THAN ONE HOME

If an individual has more than one home, he or she can exclude gain only from the sale of his or her main home. A taxpayer must include in income the gain from the sale of any other home. If an individual has two homes and lives in both of them, his or her main home is ordinarily the one he or she lives in most of the time during the year.

Examples

Example 1. Lisa owns two homes, one in New York and one in Florida. From 2021 through 2025, Lisa lives in the New York home for 7 months and in the Florida residence for 5 months of each year. In the absence of facts and circumstances indicating otherwise, the New York home is Lisa's main home. She would be eligible to exclude the gain from the sale of the New York home but not of the Florida home in 2025.

Example 2. Connie owns a house, but she lives in another house that she rents. The rented house is Connie's main home.

C. PROPERTY USED PARTLY AS MAIN HOME

If an individual uses only part of the property as his or her main home, the rules discussed in this chapter apply only to the gain or loss on the sale of that part of the property.

III. FIGURING GAIN OR LOSS

To figure the gain or loss on the sale of an individual's main home, the owner must know the selling price, the amount realized, and the adjusted basis. Subtract the adjusted basis from the amount realized to get the individual's gain or loss.

A. SELLING PRICE

The selling price is the total amount an individual receives for his or her home. It includes money, all notes, mortgages, or other debts assumed by the buyer as part of the sale, and the fair market value of any other property or any services the seller receives.