6 Reasons to Defer Capital Gains on Your Primary Home Sale

1. Understanding the IRS Section 121 Exclusion

Section 121 of the Internal Revenue Code gives you the ability to exclude up to $250,000 in capital gains ($500,000 for married couples) when selling your primary residence. To qualify, you must have owned and lived in the property for at least two of the last five years before the sale.

2. How a DST Can Help

A DST is a legal structure that allows you to defer paying capital gains taxes by selling your home to a trust in exchange for a note. The trust sells your home to the buyer and holds the proceeds. Instead of receiving a lump sum and incurring tax liability, you can receive payments of the proceeds over time based on the promissory note.

3. Why Choose a DST for a Primary Residence

The IRS doesn't allow 1031 exchanges for primary residences, but a DST is different because it's a contractual installment sale, not a like-kind exchange. You can sell your primary residence, even one that qualifies for the Section 121 exclusion, and still utilize a DST for the gain above that exclusion.

4. A Tax-Advantaged Exit Strategy for a Primary Home

Let's say you've lived in your home for 25 years. You bought it for $300,000, and now you're selling it for $1.3 million. That's a $1 million capital gain. Using a DST, you defer that gain, invest the proceeds, and create a passive income stream for years to come. Instead of writing a check to the IRS, you've created a legacy asset.

5. Is It Worth the Complexity?

If the IRS exclusion already gives you up to $500,000 in tax relief, should you really pursue a DST? Here's how to think about it. If your gains are modest and fall within the exclusion limit, a DST is not necessary. But if your net profit exceeds the exclusion, the decision becomes both financial and strategic.

6. Know Your Thresholds, Know Your Tools

The Section 121 exclusion is a powerful tool. But for many high-net-worth homeowners, especially in appreciating markets, it's only part of the picture. If your gains exceed that exclusion, or you simply want to defer capital gains tax on real estate, you owe it to yourself to consider a DST.

Presented by:
CapitalGainsTaxSolutions.com

CAPITAL GAINS TAX SOLUTIONS

Image Source:
pexels.com