

Subject: Re: Capital gains tax on home sale

From: Cuoi Cao <ccao_97@yahoo.com>

Date: 1/19/2023, 3:10 PM

To: Mark Cao <mark.cao@gmail.com>

CC: HVC BUS <hvcbus@gmail.com>, Hanh Yu <hanhcaoyu@gmail.com>, Hien Cao <hcaosc@gmail.com>

Hi Huy,
How are you and your family are doing?
We are doing fine here.

Regarding your tax question, it is beyond my expertise. You / your dad should consult a tax expert on this matter.

I am tempting to say not to sell because the tax codes allow the house to be valued at its fair market at the time of the owner passes away, not owner's tax basis (stepped-up basis). So the heirs can sell it at that time without incurring a large tax bill. However, since I don't know his plans, his financial situations, his health condition, etc., I cannot give you/him any advice on what to do.

If your dad decides to talk to planners and/or tax experts, one of you should be there to gain the understanding and for your own benefits.

Call me when you have a chance.
Chú Y

On Jan 19, 2023, at 9:50 AM, Mark Cao <mark.cao@gmail.com> wrote:

Hi Chu Y!

I hope this email finds you well! You are our go-to for accounting questions, and I have a big one. Dad lived in part of the house while renting out the rest. At one point, Dad added a granny unit ("duplex").

Dad is considering selling his house (market value \$1.2 million). Cost basis is \$82K. Here are the methods of which we are aware to reduce or defer the capital gains tax:

1. \$250K exemption for single filer. Dad has been single filing.
2. Add home improvements to the cost basis (say, \$300K).
3. Try to use a 1031 exchange rule:
 - Dad lived in one part of the house. Consider this part to be his primary residence.
 - The rest of the house, considered as an investment property, is eligible for deferring of capital gains tax.

Using #3, I can see how he can avoid paying all capital gains tax, but it doesn't sound easy to do. Any advice on how he can proceed?

Chieu