

Subject: Capital gains tax on home sale

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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