

**Subject:** Re: Capital gains tax on home sale

**From:** Mark Cao <mark.cao@gmail.com>

**Date:** 1/19/2023, 10:13 AM

**To:** Hien Cao <hcaosc@gmail.com>

**CC:** Hanh Yu <hanhcaoyu@gmail.com>

Excellent point. We're brainstorming now so that we can ask a tax professional some good questions later.

On Thu, Jan 19, 2023, 10:00 AM Hien Cao <[hcaosc@gmail.com](mailto:hcaosc@gmail.com)> wrote:

You're making the assumption that dad declared the rent on his income taxes. Did you check with him about that? I think he had issues with his refinance because he couldn't show a tax history of rent income.

On Thu, Jan 19, 2023 at 9:50 AM Mark Cao <[mark.cao@gmail.com](mailto: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