

SELLING OF YOUR U.S. PROPERTY

The Internal Revenue Service (IRS) is the government organization in the United States that is equivalent to the U.K. Inland Revenue (now called HM Customs and Excise). The IRS treats the sale of your U.S. vacation / rental property as a "taxable event". Tax will be due on the profit from the sale.

- ? To calculate the gain (profit) or loss of a property you must first figure the "**Basis**" or "**Acquisition Cost**" (by taking the purchase price of the property, adding the closing costs to purchase it, and then adding any additional improvements).
- ? Then you need to calculate the "**Net Sales Price**" (which is the selling price minus the selling closing costs).
- ? Finally, subtract your **Basis** from your **Net Sales Price** and that determines whether you made a gain or loss on the sale of that property (this is called a gain).
 - 1.) If held for more than one year – Capital Gains Treatment Applies – 15% Tax
 - 2.) If held for less than one year – Ordinary Gains Applies – Subject to Tax Rate Schedule

Here is an example:

Purchase Price:	\$ 200,000	Selling Price	\$ 300,000
Closing cost:	15,000	Costing Cost	(10,000)
Upgrades/improvements	<u>7,500</u>	Net Sales Price	<u>\$ 290,000</u>
Total Basis	\$ 222,500		

Taxable gain: \$ 67,500

Approximate Tax on Capital Gain (if held more than one year)	\$ 10,125
Approximate Tax on Ordinary Gain (if held less than one year)	\$ 13,879

Below is a Quick Reference Guide for Ordinary Gain Tax (Effective Tax Rate) to see how much tax you may owe. This is **ONLY AN APPROXIMATION**; each property will need to be calculated according to the IRS Tax Rate Schedule and IRS Codes.

Example Effective Tax Rate on Ordinary Gain:

1) Up to \$ 7,150	10%	4) Up to \$ 89,325	22%
2) Up to \$ 29,500	14%	5) Up to \$ 159,550	27%
3) Up to \$ 58,625	20%	6) More than \$ 159,550	34%

NOTE: Since your property was rented and you claimed depreciation expenses on your tax return, **ADDITIONAL TAXES** will apply for the "recapture of depreciation". The tax attributes of rental property are complex and therefore beyond the scope of a "quick reference guide".

To get a more accurate picture of your tax liability, it is strongly advised to seek U.S. Tax advice from a Certified Public Accountant (CPA) which is a Licensed Tax Professional. HESS & HESS CPA's, P.A. is such a firm.

Disclaimer: Any tax advice contained in the body of this letter was not intended or written to be used, and cannot be used, by the recipient for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code or applicable state or local tax law provisions.