

Duvall & Associates, Inc.

Taking Care of Business

CONTROL TAXES WITH MAGIC

"I'll tell you about the magic and it'll free your soul." Lovin' Spoonful

Cinderella's fairy Godmother waved her magic wand and - POOF! - a pumpkin was transformed into a gleaming golden carriage. Taxpayers too can wield such magic to conjure tax gold at the end of the rainbow.

First some tax basics. Typically, sales of any property which yield net gains are taxable (with certain exceptions). Losses from sales of business property are deductible - even though no tax benefit is generated by sales of personal use property.

The tax characterization of property (business versus personal) generally is a function of actual use by the taxpayer and can change from period to period, thus changing tax consequences upon sale.

Now let's view some magic.

Magic Act 1 - Individual owns a personal residence originally acquired for \$250,000 and currently worth only \$150,000. Sale of the residence at a loss would yield no deductions.

Taxpayer waves the wand and rents out the residence to a third party. POOF! Now taxpayer has converted a personal into a business property - which when sold creates a \$100,000 deductible loss for tax purposes.

Magic Act 2 - Individual pays \$150,000 for a rental house, now worth \$250,000. A sale would generate \$100,000 taxed income.

Taxpayer moves into the house and uses it as a personal residence. POOF! When sold two years later, the \$100,000 personal residence gain is excluded from taxation.

Now wave your magic wand and save some taxes.

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