How do I track the cost basis of my home?

Your cost basis in your home is the total dollar amount that you have invested in this property. This includes the initial cost of your home (down payment and loan payments), as well as the expense of home improvements (renovations or additions).

As you record house payments each month, Quicken transfers the principal portion of the payment to your loan account to decrease its balance. As you spend money on home improvements, you should also record the related transactions in Quicken as transfers from the account you are using to fund the payment to your home asset account. Your decreasing debt and increasing cost basis is then reflected in your net worth report.

1. For best results, make sure you have set up a Quicken house account to track the value of your home.
2. Choose **Reports** menu > **Net Worth & Balances** > **Net Worth**.
3. Click **Customize**.
4. Click the **Accounts** tab.
5. In the **Select Account Group** area, select **All Accounts**.
6. Click **Clear All.**
7. In the **Select Account Group** area, select **Property and Debt**.
8. In the **Account** area, select only your house account. (If you've taken out a second mortgage or an equity loan on your house, include those accounts, too.)
9. Click **OK**.
10. In the **OVERALL TOTAL** row of the report, view the cost basis amount of your home.

What about home improvements that permanently increase my home's value?

Home improvements that permanently increase the home's value affect its tax basis as well.

Normally, when you sell an asset for a profit, you are taxed on the realized gain, which is the amount of gain from the sale of a home that must be reported as income on your income taxes (the selling price minus the purchase price, selling expenses, improvements, and any gains carried forward to this home).

If you use part of your home as an office or studio for a small business or self-employment income, and have, thus, claimed part of your mortgage or utilities as tax-deductible business-related expenses, then this will limit the amount of capital gains available for the exemption. See your tax advisor or the IRS website for more information.

What happens to my cost basis when I sell my principal residence?

If the asset you're selling is your principal residence, however, you can usually exempt up to $250,000 ($500,000 if married and filing a joint return) of gain realized.

You must have owned and occupied your principal residence for at least two of the five years prior to any sale or exchange to take full advantage of the exclusion. If you fail to meet this requirement due to unforeseen circumstances (such as a change in employment), you are only able to exclude a fraction of either the $250,000 or $500,000 amount. The exclusion may be used once every two years.

Under current laws, you are taxed on any realized gain that cannot be excluded under the IRS rules for sales of homes after May 6, 1997. Refer to IRS Publication 17 for complete details.