UNIT

18 TAXES AFFECTING REAL ESTATE

LEARNING OBJECTIVES

When you have completed this unit, you will be able to accomplish the following.

- Discuss the city and county property taxation process and list the steps involved in the tax appeal procedure.
- Distinguish among immune, exempt, and partially exempt property and describe the various personal exemptions available to qualified owners of homestead property.
- Compute the property tax on a specific parcel, given the current tax rates, assessed value, eligible exemptions, and transfer of assessment limitation difference (save our homes portability) if applicable, and describe the purpose of Florida's Green Belt Law.
- Calculate the cost of a special assessment, given the conditions and amounts involved.
- Describe the tax advantages of home ownership.
- Explain how to determine taxable income of investment real estate and distinguish between installment sales and like-kind exchange.

KEY TERMS

adjusted basis
ad valorem
assessed value
assessment limitation (SOH benefit)
boot
capital gain
debt service
depreciation
exempt properties
Green Belt Law
immune properties
installment sale
just value
like-kind exchange
mill
special assessment
tax rate
taxable income
taxable value

INTRODUCTION

City, county, school board, and numerous special tax districts are empowered to impose taxes directly on real property in Florida as part of the powers delegated to them by the state government. The U.S. Constitution prohibits the federal government from taxing real property, passing that right on to the state and local governments. Florida is one of the states, however, that does not tax real estate at the state level.

18.1 CITY AND COUNTY PROPERTY TAXES

193, F.S.

Property taxes provide the bulk of local government revenues in Florida. They account for a large portion of the revenue needed to provide law enforcement, fire protection, and other services.

The Real Property Taxation Process

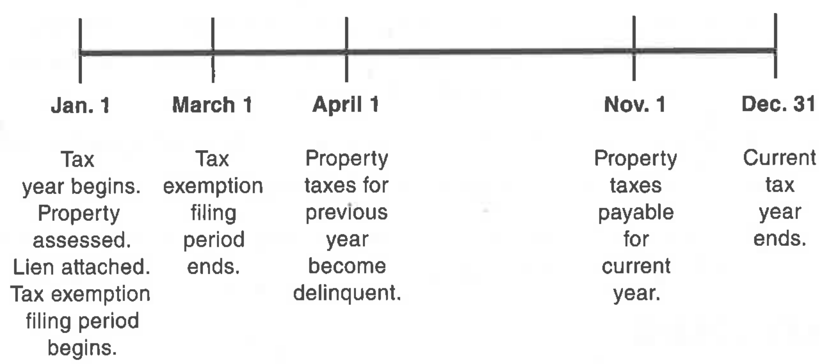
197.122, F.S.

193.023(2), F.S.

Real estate taxes (property taxes) are **ad valorem** taxes (based according to the value of the property). The county property appraiser assesses all properties within the county, called the **assessed value**. Florida law requires that the county property appraiser assess real property for all levels of government, thus avoiding duplication and possible controversy. All real property assessments must be updated annually.

Property taxes in Florida are levied on a calendar-year basis. Taxes are paid *in arrears* (at the end of the tax year) for the period of January 1 through December 31 each year (see Figure 18.1). Property taxes become a lien on all real estate in Florida on January 1 each year. This lien is legally superior to any other lien, regardless of date. Taxes are payable to the county tax collector on or after November 1 each year. Property owners may pay property taxes in four installments or in a single payment. A discount system permits property owners to realize a discount through prompt payment of taxes. All payments made on or after March 1 must be for the full amount of taxes levied. Property taxes for the previous year become delinquent on April 1.

FIGURE 18.1 ■ Property Tax Schedule



Determining Just Value

193.011, F.S.

Property taxes are levied against land and all improvements to the land. The assessed values of the land and improvements are arrived at separately and then combined to reflect a single assessed value. The state supreme court has interpreted Florida statutes as requiring that all real property be assessed at just value. **Just value** is the fair and reasonable value based on objective valuation methods. Just value has been interpreted by the Florida courts to represent market value. County property appraisers take into consideration property characteristics such as location, size, and condition of the property. The county property appraiser also considers the highest and best use of the property and, if income producing, the income generated from the property.

Property appraisers apply three approaches to value: the sales comparison approach, the cost approach, and the income approach. If the property is sold during the year, the sale price becomes a factor for consideration in assessing the value of the property, but it is not the controlling factor. Representatives of the property appraiser's office typically go into the community to assess property, collecting data using specific forms and recording procedures. The information obtained from field trips is then processed through a computer, using appropriate valuation formulas to render an objective estimate of assessed value.

Once an assessment has been placed on a property, the owner must be informed. A Notice of Proposed Property Taxes is mailed to the property owner at the address of record. The notice is also called a TRIM (truth in millage) notice. It is the responsibility of each property owner to see that a current mailing address is on file for all properties owned. Current addresses are needed to ensure that owners receive a notice of change in assessment before the time allowed for protest has expired.

Any property owner is entitled to protest a property assessment, but not every protest will be successful. For example, an owner of a home on a *standard lot* in a large, completely developed subdivision who complains that the assessment of the lot was too high will have little hope of getting the assessment changed. If the assessed value of the lot were changed, all the owners of similar lots could protest their assessments.

The same homeowner might have a better chance of obtaining a lowered assessment if the evidence indicates the *house* was assessed at a value greater than justified. The county property appraiser has fairly complete details on the square footage, construction materials, year built, and amount of estimated depreciation since the date of construction, as well as records showing the assessed values of similar structures in the neighborhood.

Protest Procedure

194.011, F.S.

When a Florida property owner feels the assessed value is inaccurate or does not reflect fair market value, the owner can use the following three-step protest (tax appeal) procedure.

Step 1. The first step is to seek an adjustment by contacting the county property appraiser or a representative of that office. If the arguments of the property owner are valid and have a basis in fact, the county property appraiser is authorized to make a change and to lower the assessed value.

194.015, F.S.

Step 2. If the property owner's request for an adjustment is rejected, the owner may file an appeal (petition) with the Value Adjustment Board. A property owner is allowed 25 days after the Notice of Proposed Property Taxes (TRIM notice) is mailed to file an assessment appeal. The board is composed of five members: two county commissioners, one school board member, and two citizen members. If the board agrees with the taxpayer that the assessed value of the property is too high, the board has the authority to change the assessment. If the board decides that the county property appraiser assigned the correct assessment value, the board will reject the taxpayer's request.

Step 3. The final step available to a property owner seeking a change in assessed value is litigation in the courts. The taxpayer may pay the taxes under protest and file a suit (a *certiorari proceeding*, meaning a review of the matter by the courts) against the county property appraiser and the county tax collector. The property owner's petition must be filed within the statutory period (Chapter 194, F.S.). The court may not arbitrarily assign an assessment value to a property. It may, however, specify the methods and procedures that the county property appraiser should use in reassessing the subject property. If the court judges the original assessed value to be just and equitable, the property owner has used all the steps available under the protest process, other than to appeal to a higher court.

PROTEST PROCEDURE WHEN A PROPERTY OWNER DISAGREES WITH THE ASSESSED VALUE	
A	Appraiser (Contact the County Property Appraiser's Office)
B	Board (Value Adjustment Board)
C	Court (Litigation)

Practice Questions

1. Real estate property tax revenue is of primary importance to ______________ government.
2. A property owner has 25 days to protest the assessed value to the________ ______________ __________.
3. Real estate property taxes are _____ ___________ taxes.
4. The county property appraiser determines the _____________ value of the properties within the county.
5. The Florida courts have interpreted ______________ value to be ______________ value.

18.2 TAX DISTRICTS: BUDGETS AND TAX RATE LEVY

Every fiscal year, each of the primary tax districts (city, county, and school board) prepares an operating budget for the next fiscal year. Budgets are also prepared by numerous smaller special tax districts that provide services. These include fire control districts, water management districts, flood control districts, and so forth.

With a budget in hand, the tax district has a good estimate of expenses for the next year. The next issue is obtaining sufficient revenue (income) to pay the expenses. No elected official is eager to levy higher property taxes than are absolutely necessary to operate the tax district. So before a general real estate tax is calculated, an attempt is made to estimate the revenue that can reasonably be expected from all sources other than real property taxes. Each tax district may have different or unique sources of income, ranging from outright federal grants to profits resulting from municipal-owned utilities. Fines paid in courts, parking meter income, fees from occupational licenses, and tax funds returned by the state government are a few of the other sources of income. Estimating the amount of income from these nonproperty tax sources is made easier by records of preceding years, which indicate a predictable trend.

With a reasonable estimate in hand of the revenue expected from all nonproperty tax sources, the tax district is able to predict the amount of money needed from property taxes. The amount of property taxes paid to a tax district must come from its *tax base*. The tax base is the total assessed value of all taxable property in the tax district. The next component needed to compute a tax rate is the number and type of property tax exemptions granted.

Exemptions From Property Taxes

The owners of certain properties are relieved of the obligation to pay property taxes. Others are partially exempted.

Immune properties are city, county, state, and federal government properties. Examples of immune properties include county courthouses and military facilities. Immune properties also include special properties, such as municipal airports, that have been made immune by statute or ordinance. Immune properties are not subject to taxation.

Exempt properties include property belonging to eligible not-for-profit organizations that own and operate real estate for religious and charitable purposes. Exempt properties are subject to taxation, but the owner is released from the obligation.

Homestead Tax Exemption

196.031, F.S.

Florida residents who hold title to a home in Florida and use the home as their *permanent residence* may establish their residence as a homestead. Floridians who homestead their residence receive a homestead exemption, which reduces the amount of property taxes owed. A person who holds title to more than one residence in the state of Florida may homestead only one residence.

Applicants must reside in the home and have legal title to the property as of January 1 to be eligible to file for the homestead tax exemption. First-time applicants must file an application with the county property appraiser's office on or before March 1. Some counties allow homeowners to file the initial application throughout the year. However, if the application is filed after the March 1 deadline, the homestead exemption will not take effect until the following year.

The procedure for renewing the homestead exemption varies from county to county. In most counties, the property appraiser mails a renewal card on or before February 1 of each year. A county may choose to waive the requirement to renew the exemption each year once the initial application is made and the exemption is granted. However, if an individual no longer qualifies for the homestead exemption and fails to notify the county, the law provides for payment of penalties and interest.

Calculating Taxable Value. Owners of homesteaded property are granted a tax exemption, relieving the owners of a portion of the tax burden. Homesteaded properties are *partially exempted* from the total property tax burden the owners would have been charged if they had not homesteaded their residence. Homesteaded properties, therefore, are subject to taxation, but the owners are partially relieved of the property taxes. The **taxable value** of a homesteaded property is determined by subtracting all applicable exemptions from the assessed value.

Owners of property that make it a permanent residence for themselves or their dependents may be eligible to receive a homestead exemption up to $50,000, depending on the assessed value. The first $25,000 exemption applies to all property taxes, including school district taxes. The additional $25,000 exemption applies to assessed values over $50,000 but only goes toward city/county taxes. The maximum amount of exemptions for school district taxes is $25,000 (see Figure 18.2).

Formula: Taxable Value for Homesteads With Assessed Value up to $50,000

assessed value – base homestead exemption = taxable value

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FIGURE 18.2 ■ Homestead Exemptions

Assessed Value of Home	City/County (Non-School Taxes)	School District (School Taxes)
Up to $50,000	Base $25,000 exemption	Base $25,000 exemption
Over $50,000	Base $25,000 + additional $25,000 = $50,000 exemption	Base $25,000 exemption

EXAMPLE: A homesteaded condominium unit has an assessed value of $49,000. What is the taxable value?

The assessed value of the homesteaded property is less than $50,000 but greater than $25,000 (refer to Figure 18.2), so the taxable value is as follows:

$49,000 assessed value – $25,000 base exemption only = $24,000 taxable value

The $24,000 taxable value is used to calculate the city, county, and school board property taxes.

Owners of homesteaded property with an assessed value that is greater than $50,000 are also entitled to the $25,000 base homestead exemption from city, county, and school board taxes. However, the owners of these homesteaded properties also qualify for an additional $25,000 exemption from the city and county taxes (but not school board taxes). Because the $25,000 base exemption only applies to school board taxes, when the assessed value exceeds $50,000, two taxable values must be calculated. One taxable value applies to school board taxes and a second taxable value is calculated for city and county property taxes.

Formula: Taxable Value for Properties With an Assessed Value That Exceeds $50,000

assessed value – $25,000 base exemption = taxable value for school board taxes

assessed value – ($25,000 base exemption + $25,000 additional exemption) = taxable value for city and county taxes or

assessed value – $50,000 exemption = taxable value for city and county taxes

EXAMPLE: A homesteaded single-family residence has an assessed value of $350,000. What is the taxable value of this property?

The assessed value of the homesteaded property is greater than $50,000, so the taxable value for school board taxes is calculated separately from the taxable value applied to city and county property taxes (refer to Figure 18.2).

$350,000 assessed value – $25,000 base exemption only = $325,000 taxable value for school board taxes

$350,000 assessed value – $50,000 exemption = $300,000 taxable value for city and county property taxes

196.101, F.S.

196.202, F.S.

Additional Homestead Tax Exemptions. Florida law provides certain additional exemptions from the assessed value of homesteaded property (see Figure 18.3). Florida statute dictates what proof must be submitted to qualify for the additional exemptions.

FIGURE 18.3 ■ Homesteaded Property Special Exemptions

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Additional Exemption on Homestead	Additional Amount Deducted From Assessed Value
Surviving spouse who has not remarried	$5,000
Blind person	$5,000
Totally and permanently disabled nonveteran	$5,000
Totally and permanently disabled quadriplegic	Homestead property 100% tax exempt
Totally and permanently disabled first responder (applies also to surviving spouse)	Homestead property 100% tax exempt

Additional Homestead Tax Exemptions for Veterans. Florida law provides certain additional exemptions from the assessed value of homesteaded property for veterans and their surviving spouses (see Figure 18.4).

FIGURE 18.4 ■ Additional Homestead Exemptions for Veterans

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Veteran Additional Exemptions	Additional Amount Deducted From Assessed Value
At least 10% disabled by misfortune or during wartime service (applies to surviving spouse who had been married to the veteran for at least five years on the date of death)	$5,000
Service-connected, totally disabled (applies also to surviving spouse)	Homestead property 100% tax exempt
Surviving spouse of veteran who died while on active duty	Homestead property 100% tax exempt

The Florida Department of Revenue has information concerning Florida property tax exemptions posted at https://floridarevenue.com/property/Pages/Taxpayers_Exemptions.*aspx* (scan QR code).

View the Department of Revenue's official application for filing homestead exemption at https://floridarevenue.com/property/Documents/dr501.pdf.

Cumulative Homestead Tax Exemptions. The taxable value of a homesteaded property is calculated by totaling all the tax exemptions that apply to the homeowners and deducting the applicable exemptions from the assessed value.

EXAMPLE 1: What is the total homestead exemption for a widower with an assessed value of more than $50,000 on a qualifying homesteaded property?

a. Eligible homestead exemptions for school board taxes are:

$25,000 base exemption + $5,000 surviving spouse = $30,000 total homestead exemption for school board taxes

b. Eligible homestead exemptions for city and county property taxes are:

$25,000 base exemption + $25,000 additional exemption for assessed values over $50,000 + $5,000 surviving spouse = $55,000 total homestead exemption for city and county taxes

EXAMPLE 2: A surviving spouse who is legally blind owns a home with an assessed value of $100,000. The owner is the primary resident of the property. What is the total homestead exemption the owner can receive?

a. $25,000 base exemption + $5,000 blind exemption + $5,000 surviving spouse exemption = $35,000 total homestead exemption for school board taxes

b. $25,000 base exemption + $25,000 additional exemption for assessed values over $50,000 + $5,000 blind exemption + $5,000 surviving spouse exemption = $60,000 total homestead exemption for city and county property taxes

Tax Rates

To calculate the dollar amount of property taxes owed, the taxable value of the property is multiplied by the appropriate **tax rate**. The taxable value is applied to the school board tax rate to calculate the taxes due for school property taxes. The taxable value for non-school taxes is applied to the city and/or county tax rates to calculate the non-school property taxes.

Understanding Tax Rates. The tax rate is expressed in mills. A **mill** is 1/1000 of a dollar ($.001). There are 10 mills in one penny. One penny (or one cent) is written as $.01, so 10 mills is $.010. Florida has legislated a cap (ceiling) that limits cities, counties, and school boards to a basic real property tax rate of no more than 10 mills each, except for voted levies. The maximum tax rate that can be charged on real property for county taxes (or city taxes or school board taxes) is 10 mills, which is equivalent to one cent per dollar of taxable value.

Tax rates expressed in mills must be converted to decimal values before calculating property taxes. To convert the tax rate to a decimal, simply move the decimal point three places (1,000th place) to the left. Add zeros as placeholders, if necessary. For example, 9 mills are expressed as .009 decimal and 25 mills are expressed as .025 decimal.

Formula: Annual Property Taxes Due

taxable value × tax rate = annual property taxes due

EXAMPLE: A home is assessed at $180,000. The owner has qualified for the homestead exemption. The county tax rate is 9.5 mills, the city tax rate is 8.0 mills, and the school district rate is 5.5 mills. How much will the property owner be charged for property taxes?

a. *Calculate school taxes.*

5.5 mills = .0055

$180,000 assessed value – $25,000 base exemption = $155,000 taxable value for school board taxes

$155,000 taxable value × .0055 = $852.50 school board taxes

b. *Calculate city and county (non-school) taxes.*

9.5 mills for county taxes + 8.0 mills for city taxes = 17.5 mills

17.5 mills = .0175

Because the assessed value exceeds $75,000, the total exemption is $50,000:

$180,000 assessed value – $50,000 homestead exemption = $130,000 taxable value for city and county property taxes

$130,000 taxable value for city and county property taxes × .0175 = $2,275 city and county property taxes

c. *Calculate total property taxes due.*

$852.50 school board taxes + $2,275.00 city and county taxes = $3,127.50 total property taxes due

Not all property owners are subject to the same tax rates. A homeowner living in a city pays city, county, and school board taxes. Perhaps additional taxes will be required as a result of bonds or other obligations approved by the voters. Usually, a homeowner living in the county but outside the city limits pays only county and school board taxes (plus any applicable special district rates). Often, additional taxes are required of county residents who are in special tax districts.

FACTS ABOUT CALCULATING PROPERTY TAXES

- Homestead exemptions are deducted from the assessed value to find the taxable value.
- On homesteaded property, the base $25,000 exemption is subtracted to calculate school board taxes.
- If the property is not homesteaded, the assessed value equals the taxable value.
- Taxable value is multiplied by the tax rate, in mills, to determine property taxes.

200.071, F.S.

200.081, F.S.

EXAMPLE: A homesteaded single-family residence has an assessed value of $350,000. The millage rate for the school district is 6 mills, city 7.1 mills, and county 8.2 mills. (a) How much is owed for school district taxes? (b) How much is owed for city and county taxes? (c) What is the total property tax bill for this property?

a. *Calculate school taxes.*

$350,000 assessed value – $25,000 base homestead exemption = $325,000 taxable value for school district taxes;

6 mills = .006;

$325,000 taxable value × .006 = $1,950 school district taxes

b. *Calculate city and county (non-school) taxes.*

Because the assessed value exceeds $50,000 the total exemption is $50,000:

$350,000 assessed value – $50,000 homestead exemption = $300,000 taxable value for city and county taxes;

7.1 city mills + 8.2 county mills = 15.3 mills = .0153;

$300,000 taxable value × .0153 = $4,590 city and county property taxes

c. *Calculate total property taxes due.*

$1,950 school taxes + $4,590 city and county taxes = $6,540 total property taxes due

Practice Questions

6. The assessed value of a homesteaded property is $395,000.
   - How much will the homeowner be charged for school property taxes?
   - How much will the homeowner be charged for city and county taxes?

7. _______________ properties are city, county, state, and federal government properties that are NOT subject to taxation.

8. _______________ properties include property belonging to religious organizations and nonprofit organizations.

9. The surviving spouse of a veteran who died while on active duty is entitled to a ____________ property tax deduction on homesteaded property.

10. A veteran who is at least 10% disabled by misfortune or during wartime service is entitled to an additional ____________ deduction from the assessed value of homesteaded property.

11. A homesteaded property is located in St. Petersburg, Florida, in Pinellas County. The city tax rate is 8.7 mills, the county tax rate is 9.2 mills, and the school district tax rate is 6 mills. The homeowner is blind and has qualified for homestead exemption. The home has been assessed at $165,000.

    a) How much is owed for school taxes?

    b) How much is owed for city and county taxes?

    c) What is the total property tax bill for this property?

18.3 FLORIDA STATUTES AFFECTING REAL PROPERTY

Save Our Homes and Portability

193.155, F.S.

The *Save Our Homes (SOH)* amendment to the Florida Constitution caps how much the assessed value of homesteaded property may increase in a given year. The just value of homesteaded property may be increased by the lesser of:

- 3% annually (based on the assessed value for the prior year); or
- the percentage change of the Consumer Price Index (CPI) for the preceding year.

The SOH benefit is the difference between the assessed value and the market value of a homesteaded property due to the annual limit on increases in assessed value.

EXAMPLE: Assume a homestead has a just value of $300,000, an accumulated $40,000 in SOH protections (called SOH **assessment limitation** or **SOH benefit**), and a homestead exemption of $25,000 plus the additional $25,000 exemption on nonschool taxes. What is the taxable value of this homestead?

$300,000 – $40,000 SOH benefit = $260,000 assessed value
$260,000 – $25,000 base homestead = $235,000 taxable value for school taxes
$260,000 – $50,000 total homestead = $210,000 taxable value for nonschool taxes

Save Our Homes Portability Transfer Eligible homestead owners may transfer their SOH benefit (up to $500,000) from their previous homestead to a new homestead. To be eligible, the homeowner must establish a homestead exemption for the new home within three tax years of January 1 of the last qualified homestead exemption (not three years after the sale). In effect, only one tax year with no homestead exemption is allowed to transfer the SOH benefit. Floridians who sell their homesteaded property and move into temporary housing while constructing a new home need to be especially mindful of the portability time clock.

> **EXAMPLE:** A married couple sells their homesteaded property in October 2022. The homestead exemption remains with the property until the end of the tax year, December 31, 2022. The last qualified homestead exemption for the property began on January 1, 2022, the beginning of the tax year. The homeowners have three tax years from the last qualified homestead exemption, until January 1, 2025, to transfer the SOH benefit to a new Florida homesteaded property.

689.261, F.S.

Discussing Property Taxes With Prospective Buyers. When homesteaded property is sold, it is assessed at just value as of January 1 of the year after a change in ownership. The assessed value of a homesteaded property may significantly increase after a change in ownership if the previous owners lived in the home for a number of years and the property in the area has experienced strong property appreciation.

Licensees should avoid estimating a buyer's property tax liability by referring to a seller's current taxes because the purchaser may be liable for substantially higher property taxes than the previous owner of the home. Prospective purchasers of residential property must be given a disclosure summary regarding property taxes. The disclosure summary informs purchasers that they cannot rely on the seller's current property taxes as the amount of property taxes the purchaser may be obligated to pay in the year following purchase of the property. The disclosure further explains that the sale of the property triggers a reassessment of the property's value (see "Property Tax Disclosure Summary," Unit 11). Buyers who have questions concerning the amount of property taxes they can expect to pay on the homes they are considering buying should be referred to the county property appraiser's office.

WEBLINK @

The Department of Revenue has prepared a brochure about portability at https://floridarevenue.com/property/Documents/pt112.pdf.

Florida's Green Belt Law

193.461, F.S.

Florida law authorizes county property appraisers to assess agricultural land by a more favorable method than that used for other properties. If a taxpayer's land is so classified for assessment purposes, the county property appraiser must base the property tax assessment solely on the basis of the land's current character and use. The highest and best use of such land (such as commercial development) is not a factor in arriving at just value for agricultural purposes.

Florida's **Green Belt Law** was designed to protect farmers from having taxes increased just because the land might be in the path of urban growth and therefore well suited for development. An agricultural land classification results in a lower property assessment. Without such protection, a farmer's taxes could be raised to the point where it would no longer be economically feasible to continue the agricultural use. Because of lower taxes on agricultural land, speculators often have been attracted to such properties when they are located in the path of urban growth. In many instances, the law, which was intended to protect the farmer, has been used as a tax protection by speculators. To stop this practice, the Florida Green Belt Law was changed to require that all county property appraisers annually classify all lands within the county. Property owners desiring that their land be classified differently must request and rejustify such classification before March 1 each year. If the request is denied, these property owners may appeal the denial through the regular protest procedure used by other property owners.

Practice Questions

12. A homeowner has ______________ years from the last qualified homestead exemption to transfer the SOH benefit to a new Florida homesteaded property.

13. Florida's ______________ Law authorizes county property appraisers to assess land annually used for ______________ purposes to protect farmers from high property assessments based on potential development.

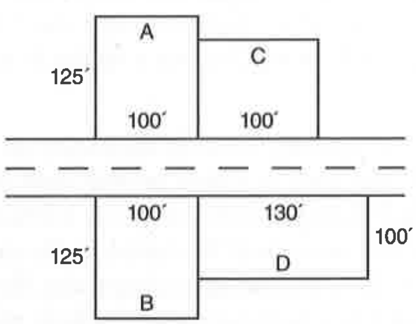
18.4 SPECIAL ASSESSMENTS

A **special assessment** is a tax levied on property to help pay for a public improvement that benefits the property. Laws require that to charge a special assessment, the property must benefit (increase in value) because of the improvement. Examples of special assessment taxes include paving streets that previously were unpaved, installing street lights, hooking up water and sewer services, installing sidewalks, and so forth.

Specific Superior Liens. Special assessment liens are *not* ad valorem tax liens. Ad valorem taxes are liens levied on property value to support the general functions of government, whereas special assessment tax liens are levied on property to pay the cost of a specific local improvement. Special assessment liens are a type of specific lien because the lien attaches to a specific property and not to all the assets of the property owner. Special assessment liens take priority over all other liens, except ad valorem tax liens. Recall that liens that take priority over other liens regardless of the recording date are called superior liens (see "Liens," Unit 9).

Street Paving Assessment. Street paving assessments are calculated on a front foot basis. Lot dimensions are written with the front footage first and then the depth of the lot. Front footage refers to the measurement along the street. Lot D (see Figure 18.5) has 130 front feet and the lot measures 130 feet by 100 feet.

FIGURE 18.5 ■ **Street Assessment**



The local government typically bears a portion of the cost of the improvements; for example, the city may cover 40% of the total cost, leaving the remaining 60% to be paid by the property owners. When calculating a street paving assessment, it is important to remember that property owners are only charged to the middle of the street (or half of the total property owners' share). This is because the property owner across the street will also be charged a special assessment. The property owners of Lot A and Lot B in Figure 18.5 are across the street from one another. Each will pay half of the homeowner share of the street assessment. Notice that Lot C in Figure 18.5 also has front footage of 100 feet. The lot is not as deep compared with Lot A, but it will be charged the same street assessment as the adjoining Lot A because both Lot A and Lot C have the same front footage on the street. When calculating the special assessment for a property, the assessment is not affected by the dimensions of neighboring properties or how property across the street from the subject property is zoned (or utilized). For example, assume that the area to the east (right) of Lot C begins neighborhood common area. The common area has no effect on the special assessment of Lot D in Figure 18.5. The property owner of Lot D is only charged to the middle of the street.

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Formula: Street Paving Assessment

front feet × cost per front foot = total cost

total cost × percentage paid by homeowners ÷ 2 (sides of street) = homeowner's cost of paving

EXAMPLE 1: The city is paving the streets in a neighborhood. The city will assume 30% of the expense. The city has approved a bid to pave the streets at a cost of $24 per front foot. How much is the special assessment for Lot A that measures 100 feet by 125 feet?

100 front feet × $24 per linear foot = $2,400
$2,400 × .70 (property owners' total share of cost is 100% – 30%) = $1,680
$1,680 ÷ 2 (one-half of the street paving cost) = $840

EXAMPLE 2: The city is paving the streets in a neighborhood. The city will assume 25% of the expense. The city has approved a bid to pave the streets at a cost of $28 per front foot. The subject lot measures 120 feet by 150 feet. Across the street is a neighborhood community center and pool. Calculate the subject lot's special assessment.

120 front feet × $28 per front foot = $3,360
$3,360 × .75 (property owners' total share of cost) = $2,520
$2,520 ÷ 2 = $1,260

Nonpayment of Real Property Taxes

Real estate taxes and non-ad valorem assessments are due each calendar year and are payable November 1. The taxes become delinquent April 1 of the following year. Property taxes constitute a lien superior to all other liens on real property. Special assessments are next in priority.

197, F.S.

Delinquent Real Estate Taxes. When a property owner fails to pay property taxes, the taxing authority must take steps to obtain the tax money needed to help pay for the cost of government. To do this, a property *tax certificate* is issued for each delinquent property. A list of all delinquent properties is published in a newspaper having general circulation throughout the county. The advertisement is printed weekly, three times prior to the tax certificate sale.

This publication gives all delinquent owners notice that tax certificates on their properties will be sold if the taxes are not paid before the date of sale. The published list of properties, including the amount of taxes in arrears, specifies a date, time, and place of the tax certificate sale. The county tax collector may conduct electronic online sales of tax certificates.

A property owner who pays the tax late in April or May is charged interest plus advertising cost.

Tax Certificate Auction. The tax collector is required to conduct a sale of tax certificates to collect the preceding year's unpaid real estate taxes. The sale begins on or before June 1. The delinquent tax amount (certificate's face amount) consists of the real estate tax and non-ad valorem assessment amount, interest for the months of April, May, and June, county tax collector's commission (5%), newspaper advertising charges, and internet tax certificate sale fees.

A tax certificate sale is not a sale of real property, nor does a tax certificate give the certificate holder a direct means to acquire a property. At the auction, any qualified person is entitled to bid for the tax certificate on any property. Instead of bidding in dollars, investors bid interest rates at the auction, starting at 18% and going down. The bidder who is willing to accept the lowest interest rate is issued the tax certificate. Once the certificate is sold, the bidder must pay the face amount of the certificate to the county (taxes, interest, and advertising cost).

Redemption of a Tax Certificate. The county tax collector issues a check or ACH transfer deposit to the certificate holder for the face amount of the certificate and the interest earnings when the property taxes are paid. For a certificate to be redeemed by the owner of the property, the tax collector must collect the face amount of the certificate plus all accrued interest. If the property owner does not pay the outstanding taxes and accrued interest within two years from the date the tax certificate was sold, the certificate holder can apply for a tax deed. The statute of limitation on a tax certificate is seven years from the date of issuance. If a tax deed has not been applied for within seven years and no other administrative or legal proceeding exists, the tax certificate is null and void by operation of law.

Tax Deed Process. The holder of the tax certificate may file a *tax deed application* anytime after two years has lapsed from the issuance of the tax certificate but before the expiration of seven years from the date of issuance. The certificate holder must pay the county tax collector all amounts required for redemption or purchase of all other outstanding tax certificates, any omitted taxes, current and delinquent taxes, plus interest and fees. The tax deed applicant is notified of the additional funds needed for advertising and other costs.

Anyone can bid at the foreclosure sale and the property will be sold to the highest bidder. If the property is purchased by someone other than the certificate holder, the tax certificate holder will be reimbursed all the sums paid plus accrued interest up to the date of sale. If there are no bidders, the holder of the certificate is issued a tax deed. Once the property is transferred by tax deed, all other liens against the property—including mortgages—are wiped out, with the exception of any government liens.

Practice Questions

14. __________ ______________ are one-time taxes levied on properties to help pay for some public improvement that benefits the property.

15. Special assessments are not _____ __________ taxes. Usually, special assessments are levied on a ______________ basis for items such as sidewalks and street paving.

16. The maximum rate of interest on a tax certificate is ______________.

17. A holder of a tax certificate that has not been redeemed may request a __________ __________ anytime after _________ years from the date the tax certificate was issued but no later than __________ years after the date the certificate was issued.

18. The city is petitioned to pave the streets in a neighborhood. The paving cost is $35 per foot, and the city is to pay 35% of the cost. There are homes on both sides of the streets to be paved. If the lot frontage on the street is 120 feet, what is the special assessment for the street paving for this homeowner?

18.5 FEDERAL INCOME TAXES

Principal Residence

Tax laws are designed to encourage homeownership and give preferred treatment to taxpayers who own their residences. The owner-occupied residence may be a house, a condominium, or a houseboat (note that the definition of residential property in Chapter 475 applies to brokerage relationships and does not apply for income tax purposes). The homeowner has certain income tax advantages. Homeowners who itemize deductions (rather than claim the standard deduction) on their annual federal income tax returns, may deduct mortgage interest and property taxes. Homeowners will want to compare the higher standard deduction to the amount paid for mortgage interest and property taxes. If the standard deduction exceeds the amount paid for mortgage interest and the property taxes, there is no added benefit to itemize deductions. Tax advantages of owning a principal residence are as follows:

- *Mortgage interest is deductible.* Interest paid on a mortgage loan on a principal and second home is deductible (certain limitations apply).
- *Property tax is deductible.* The annual property taxes paid on principal and second homes are deductible (up to $10,000).
- *IRA withdrawals for first-time homebuyers.* First-time homebuyers may make penalty-free (but not tax-free) withdrawals up to $10,000 from their tax-deferred individual retirement funds (IRAs) for a down payment. Different IRS rules apply to withdrawals from Roth IRAs.
- *Exclusion of gain from the sale of a principal residence.* Up to $250,000 of gain ($500,000 for married couples filing a joint return) realized on the sale or exchange of a principal residence may be excluded.

Additional tax benefits to homeowners are as follows:

- *Interest home equity loans is deductible.* The interest paid is deductible if the loan is used for improvements to the home. If the home equity loan is used to pay off personal expenses, such as paying off credit card debt, the interest would not be deductible.
- *Mortgage loan origination fees and points are deductible.* Loan origination fees and points paid on a mortgage loan to purchase or construct a principal residence are deductible in the year they are paid. Points paid on a refinance loan must be amortized over the life of the loan. Points charged to finance a second home must be deducted over the life of the loan.

Sale of Real Property

Federal income tax laws classify real property as a *capital asset.* **Capital gain** income is profit from the sale of a principal residence, an investment property, a property used in a trade or business, or an income-producing property, and it must be reported for tax purposes. The taxable gain on real estate is determined by two factors:

1. **Adjusted basis** is the original purchase price, plus expenses associated with the purchase and any capital improvements.
2. Amount realized from the sale is the sale price less the expenses associated with the sale.

EXAMPLE: A homeowner originally purchased a new home for $190,000. During the period of ownership, the homeowner spent $15,000 in capital improvements. The homeowner sold the home 10 years later for $265,000. The homeowners paid a brokerage fee of $13,250 and closing costs of $1,155. What is the capital gain from the sale?

Step 1: Calculate the adjusted basis.

$190,000 original purchase price + $15,000 capital improvements = $205,000 adjusted basis

Step 2: Calculate the amount realized from the sale.

$265,000 sale price – $13,250 commission – $1,155 closing costs = $250,595 amount realized

The capital gain (or loss) is the amount realized from the sale less the adjusted basis.

$250,595 amount realized from sale – $205,000 adjusted basis = $45,595 capital gain

Exclusion of Gain From the Sale of a Principal Residence. The IRS allows homeowners to exclude up to $250,000 of gain ($500,000 for married couples filing a joint return) realized on the sale of a principal residence. Any gain above the exclusion is taxed at the applicable capital gains rate. The exclusion is allowed each time taxpayers sell a principal residence, as long as the homeowners have occupied the property as their residence for at least two years during the five-year period ending on the date of the sale.

The taxpayer is not required to reinvest the sale proceeds in a new residence to claim the exclusion. The exclusion of gain is generally allowed only once every two years. However, homeowners who do not meet the two-year requirement because of a change in health, job transfer, or other allowable reasons may be eligible for a prorated exclusion of gain.

Disposition of Real Property From Foreign Sellers. Real estate licensees need to be aware of federal regulations regarding the purchase of real property in the United States from foreign sellers. The sale of real property by a foreign person is subject to the Foreign Investment in Real Property Tax Act (FIRPTA) income tax withholding. FIRPTA requires a buyer of property owned by a foreign investor to withhold 15% of the amount realized on the sale. The sale of a personal residence is exempt if the amount realized is not greater than $300,000. All licensees should encourage their buyers and sellers to consult the IRS or a tax specialist regarding the application of this rule. It is always wise to retain professional counsel regarding tax situations.

WEBLINK

For additional information regarding FIRPTA withholding, go to https://www.irs.gov/individuals/international-taxpayers/firpta-withholding.

Download the IRS Form 8288 instructions at https://www.irs.gov/pub/irs-pdf/f8288.pdf.

Practice Questions

19. List the tax advantages of homeownership.
    1. ______________________________
    2. ______________________________
    3. ______________________________
    4. ______________________________

20. The exclusion of gain from the sale of a principal residence is up to ____________ of gain, or up to ____________ of gain for married couples filing a joint return, provided the taxpayer-homeowner had occupied the residence for at least two of the last five years.

21. A homeowner originally purchased a new home for $250,000. During the period of ownership, the homeowner spent $28,000 in capital improvements. The homeowner sold the home 15 years later for $339,900. The homeowner paid a brokerage fee of 6% of the sale price and paid out-of-pocket closing costs totaling $2,500. What is the homeowner's capital gain from the sale?

18.6 INVESTMENT PROPERTY

Federal income tax laws encourage real estate investment. Buyers and sellers should always seek competent tax advice to ensure the most favorable tax treatment in a real estate transaction. Advance planning is necessary if an investor's after-tax return on investment is to be maximized.

Types of Income. Recall from Unit 16 the types of income:

- Effective gross income (EGI)
- Net operating income (NOI)

Formula: Effective Gross Income (EGI)

potential gross income (PGI) – vacancy and collection losses + other income = effective gross income (EGI)

Formula: Net Operating Income (NOI)

effective gross income (EGI) – operating expenses = net operating income (NOI)

Determining Taxable Income. An investor's appropriate tax rate is applied to a taxpayer's taxable income. **Taxable income** is the amount of income that remains after all applicable deductions and adjustments to income are applied.

Operating expenses are those cash outlays necessary for running and maintaining the property. Certain operating expenses are deductible from taxable income in the year paid. Property taxes are a fixed operating expense and are deductible from gross income for tax purposes.

The cash "reserve" for replacements is not deductible for tax purposes. Think of reserve for replacements as an emergency savings account. When calculating taxable income, the money held in the savings account would be part of the taxable income. However, any *replacement expenses* actually paid during the tax year are deducted.

EXAMPLE: An investor maintains a reserve in the operating budget of an apartment complex for replacement of items such as carpet, kitchen appliances, and roof shingles. The reserve account totals $180,000. The $180,000 may not be deducted to calculate taxable income. During the tax year, the investor replaced the carpet in 10 of the units at a cost of $20,000. The investor may reduce the taxable income by the $20,000 carpet expense.

Debt service is the amount of money needed to meet the periodic payments of principal and interest on a loan that is being amortized. Investors may deduct the interest paid on the mortgage loan, as well as the costs of obtaining borrowed money. Mortgage interest is deductible in the year paid. Loan origination fees and points are only deductible if charged as a percentage of the loan amount. These fees and points must be amortized over the life of the loan.

Depreciation is a means of deducting the costs of improvements to land over a specified period. The land itself is not depreciable. Depreciation (or cost recovery) allows taxpayers to recover the cost of depreciable property by paying less tax than they would otherwise have to pay.

Under present tax law, the depreciation deduction usually bears little relationship to actual changes in property value. Depreciation is used to stimulate economic expansion by making certain types of real property more attractive to investors. Depreciation is allowed only for business property and income-producing property (which includes investment property). It is not allowed for inventory property or for a personal residence.

Depreciation Components. The *depreciable basis* of the property is the amount that may be depreciated. For real property, it is generally the initial cost of the asset plus acquisition costs minus the value of the land. Acquisition costs generally include such items as the buyer's attorney's fees, appraisal fees, survey fees, and title insurance costs. Because land is not depreciable, this basis (total cost) must be allocated between the improvements (buildings, etc.) and the land, based on the respective values of each.

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Straight-Line Method. Depreciation is calculated using the straight-line method. An equal amount of depreciation is taken annually over the useful life of the asset. The Internal Revenue Service (IRS) has currently established useful asset life as 27.5 years for residential rental property and 39 years for nonresidential income-producing property.

Residential rental property can be single-family homes, condominiums, apartments, townhomes, or other types of residential structures. If a property owner purchases a duplex and lives in one of the units and rents the other to tenants, the IRS classifies the unit the property owner lives in as the owner's primary residence and the other unit is classified as residential rental property. Nonresidential income-producing property includes industrial and commercial investment property, such as offices, restaurants, retail stores, warehouses, and so forth.

Formula: Straight-Line Method

total cost to acquire property – value of the land = depreciable basis

depreciable basis ÷ useful life (27.5 or 39 years) = annual IRS depreciation deduction

EXAMPLE 1: In 2019, a duplex classified as a residential real estate investment property was purchased for $250,000, with a land value of $50,000. The depreciable basis is $200,000 ($250,000 sale price less the land value). What is the amount of the yearly depreciation deduction?

$200,000 depreciable basis ÷ 27.5 years = $7,273 annual depreciation deduction

EXAMPLE 2: In 2019, a nonresidential real estate investment property was purchased for $2,350,000, with a land value of $250,000. What is the amount of the yearly depreciation deduction?

$2,350,000 – $250,000 land value = $2,100,000 depreciable basis

$2,100,000 ÷ 39 years = $53,846 annual depreciation deduction (rounded to nearest dollar)

Depreciation provides favorable tax relief as an allowable deduction that requires no current outlay of cash, as is necessary to deduct other expenses (such as property taxes and mortgage interest). In addition, depreciation is based on the total cost of improvements, including that portion paid with borrowed funds (the leveraged portion). An investment is a tax shelter when it shields income or gain from payment of income taxes. One of the features of a tax-sheltered real estate investment is depreciation. Depreciation protects at least a portion of income from tax and also may produce a tax loss, thus possibly creating additional tax sheltering of other income.

Sound real estate investments depend primarily on the inherent productivity of a property, not on its tax aspects. A good real estate investment always combines positive cash flow (if income-producing property) with appreciation of property value. If a property declines in value in an amount equal to or greater than the depreciation deduction allowable for tax purposes, that property is not a tax shelter.

Capital Gains and Capital Losses. Capital gain income results from the sale of capital assets. Capital gains (and losses) are either short term (the asset is held for less than 12 months) or long term (the asset is held for more than 12 months). Capital gains are taxed at the applicable capital gains rate.

A capital gain from the sale of real estate investment property can be used to offset a capital loss from the sale of other investment property. Furthermore, if an investor's capital loss exceeds capital gains, the investor may deduct up to $3,000 in losses in a given year. Assume, for example, an investor has two investment properties. One earns a capital gain of $10,000, and the other has a capital loss of $15,000. The investor can offset the $10,000 gain with $10,000 of the loss. This leaves a net $5,000 loss of which the investor can deduct $3,000. The investor must carry forward the remaining $2,000 loss to the next year. A loss from the sale of your personal residence is not deductible.

Tax on Gain at Time of Sale. In general, when income property is sold for cash, all gain or loss must be recognized (reported) immediately for income tax purposes. The total realized gain is the difference between the net sale price (selling price less selling expenses) and the depreciated basis of the property. The seller pays tax on the gain from the sale of real estate in the year the gain is collected. Because of the tax consequences of the immediate recognition of gain, the installment sale method or a like-kind exchange may provide beneficial tax results.

Installment Sale Method. Under the **installment sale** method, the gain is received over a number of years and the seller recognizes the gain for tax purposes over the same period. The installment sale method relieves the seller of paying tax on gain not yet collected. Generally, it calls for the gain to be reported only as payments are actually received, with each payment treated as part profit and part recovery of investment in the property sold. If an installment sale results in a loss, however, the seller may not use the installment sale method to report the loss over a period of years for tax purposes. A qualified loss must be recognized (reported) in the year of sale. Because the IRS requirements regarding the installment sale method are complex, early tax counsel is mandatory.

Like-Kind Exchange. Real estate investors can defer paying taxes by exchanging real property. The income tax is deferred, not eliminated. A **like-kind exchange** enables a taxpayer-investor to realize the benefits of investment and property appreciation immediately while paying taxes later. When the investor sells the new property (acquired in the exchange), the capital gain will be taxed.

To qualify as a tax-deferred exchange under Section 1031 of the Internal Revenue Code, real property must be exchanged for other real property (hence the term *like-kind*). However, it may be a different type of real property. For example, a multifamily complex can be exchanged for an office complex. Any additional capital or personal property included with the transaction to even out the value of the exchange is called **boot**. The IRS requires tax on the boot to be paid at the time of the exchange by the party who receives it. Because exchanges are subject to a number of IRS rules that must be strictly adhered to, the transactions must be carefully structured, with early tax counsel mandatory. Personal residences and foreign property do not qualify.

Practice Questions

22. __________ income is the amount of income that remains after all applicable deductions and adjustments to income have been applied.

23. _______ ___________ is the amount of money needed to meet the periodic payments of principal and interest on a loan that is being amortized.

18.7 SUMMARY OF IMPORTANT POINTS

- Property taxes are payable for the current year on or after November 1. Unpaid property taxes become delinquent on April 1 of the following year.
- *Assessed value* is the value of a property established for property tax purposes. Property owners use a three-step procedure to protest the assigned assessed value: (1) contact the county property appraiser, (2) appeal to the Value Adjustment Board, and (3) file a suit in court (certiorari proceeding).
- The Value Adjustment Board is made up of five members: two county commissioners, one school board member, and two citizen members.

- Immune properties consist of city, county, state, and federal government properties. Immune properties are not assessed and are not subject to taxation.
- Exempt properties include property belonging to churches and nonprofit organizations. Exempt properties are subject to taxation, but the owner is released from the obligation.
- Partially exempt property is subject to taxation, but the owner is partially relieved of the burden. Taxable value is determined by beginning with assessed value and subtracting appropriate exemptions.
- Florida residents who hold title to a home in Florida and use the home as their permanent residence may homestead the property. Homeowners are entitled to a $25,000 homestead exemption from the assessed value of the home for city, county, and school board taxes. Homesteaded properties with an assessed value greater than $50,000 are entitled to an additional $25,000 homestead exemption from city and county taxes (but not school board taxes).
- An additional $5,000 exemption from the assessed value of homesteaded property is available to widows and widowers, legally blind persons, and nonveterans who are totally and permanently disabled. An additional $5,000 exemption is available to veterans who are at least 10% disabled by military service–connected misfortune.
- Florida's Green Belt Law shields agricultural property from higher tax assessments.
- The Save Our Homes amendment caps how much the assessed value of homesteaded property may increase each year to 3% annually or the CPI, whichever is less.
- The Save Our Homes (SOH) benefit is portable. The homeowner must transfer the homestead exemption for the new home within three tax years of the last qualified homestead exemption.
- A *mill* is one one-thousandth of a dollar or one-tenth of a cent. Cities, counties, and school boards are capped at a basic real property tax rate of no more than 10 mills each.
- *Special assessments* are one-time taxes levied on properties to help pay for a public improvement that benefits the property. A special assessment becomes a lien on the property.
- Property taxes constitute a lien superior to all other liens on real property. Property taxes become a lien on January 1 of each year.
- Property owners who itemize deductions may deduct interest and property taxes. Loan origination fees and points are deductible in the year paid on a loan to finance a principal residence. Points charged to finance a second home must be paid over the life of the loan.
- Deductions from taxable income on investment property include operating expenses (but not reserve for replacements), financing expense, and depreciation.
- *Depreciation* is a means of deducting the cost of improvements to land over a specified time. The land itself is not depreciable. Depreciation is calculated using the straight-line method; an equal amount is taken annually over the useful life of the asset. The IRS has established the useful life of 27.5 years for residential rental property and 39 years for nonresidential income-producing property.

- Under the installment sale method, the gain is received over a number of years and the seller recognizes the gain for income tax purposes over the same period. The installment sale method relieves the seller of paying income tax on gain not yet collected.
- A like-kind exchange enables a taxpayer-investor to realize the benefits of investment and property appreciation immediately while paying taxes later.

UNIT 18 EXAM

1. An investor purchased an apartment building in January for $975,000. The contract specified that 90% of the purchase price was allocated to the building and 10% of the purchase price was for the land. The investor made a down payment of $97,500 and financed the remainder of the purchase. What is the annual IRS depreciation allowance for the property? (Round to nearest dollar.)
   a. $22,500
   b. $31,909
   c. $25,000
   d. $35,455

2. Each year in Florida, property taxes for the previous year become delinquent on
   a. January 1.
   b. April 1.
   c. November 1.
   d. December 31.

3. The first step in protesting the assessed value of real property is to
   a. contact the county property appraiser or a representative.
   b. contact the county tax collector or a representative.
   c. contact the Value Adjustment Board.
   d. file suit against the Value Adjustment Board.

4. The Value Adjustment Board is composed of
   a. the city manager, property appraiser, and three other elected officials.
   b. three school board members and two county commissioners.
   c. one school board member, two county commissioners, and two citizen members.
   d. five school board members and two county commissioners.

5. A 25% service-disabled veteran, who is 75 years old, has been granted a homestead exemption on his $270,000 residence. How much is his total homestead exemption for county taxes?
   a. $25,500
   b. $30,000
   c. $55,000
   d. Totally tax exempt

6. Which statement is FALSE concerning Florida's Green Belt Law?
   a. The law is intended to protect owners of agricultural property.
   b. Farmers' lands are shielded from excessive taxation.
   c. The law has been strengthened by qualifying agricultural land annually.
   d. The law is intended to promote open green spaces along our nation's interstates.

7. If a lot frontage is 100 feet, street paving costs are $40 per running foot, and the city will pay 25% of paving costs, what will be the assessment to the property owner?
   a. $1,000
   b. $1,500
   c. $3,000
   d. $4,000

8. A widow owns a home in Gainesville, Florida, in Alachua County. The city tax rate is 9.3 mills, the county rate is 9.7 mills, and the school district tax rate is 6 mills. The woman has homesteaded her principal residence. Her home has been assessed at $178,000. The amount of total property taxes owed after all allowable tax exemptions is
   a. $3,187.50.
   b. $3,225.00.
   c. $3,344.00.
   d. $3,347.00.

9. Current state law allows the buyer of property tax certificates to collect interest up to a maximum of
   a. 12%.
   b. 18%.
   c. the tax rate in each county.
   d. allowable interest voted by the residents of each county.

10. If a married couple who files jointly realizes a profit from the sale of their home that exceeds $500,000, what is the result?
    a. The homeowners will not pay capital gains tax if at least one of them is older than 55.
    b. Up to $125,000 of the excess profit will be taxed as a capital gain.
    c. The excess gain will be taxed at the current applicable capital gains rate.
    d. The excess gain will be taxed at the homeowner's income tax rate.

11. The maximum amount of profit that may be excluded from taxation on the sale of a home for a qualifying couple, filing separately, is
    a. $125,000.
    b. $150,000.
    c. $250,000.
    d. $500,000.

12. Tax advantages of homeownership do NOT include
    a. a tax deduction of property taxes paid.
    b. penalty-free withdrawal from an IRA if used as a down payment on a personal residence for first-time homebuyers.
    c. exclusion of gain from the sale of a principal residence up to $500,000 for married couples filing a joint return.
    d. a tax deduction of the cost of homeowners hazard insurance.

13. For tax purposes, when the installment sale method is used, gain
    a. is reported as payments are received.
    b. or loss is reported as payments are received.
    c. must be deferred.
    d. or loss must be deferred.

14. Which item is NOT a deductible expense for an income-producing property?
    a. Depreciation
    b. Reserve for replacement
    c. Hazard insurance
    d. Mortgage interest

15. A tax-sheltering real estate investment is one in which the
    a. debt service is greater than net operating income.
    b. secondary purpose is the productivity of the property.
    c. primary purpose is reduction of personal taxable income.
    d. amount of depreciation taken for tax purposes is greater than the actual depreciation of the property.