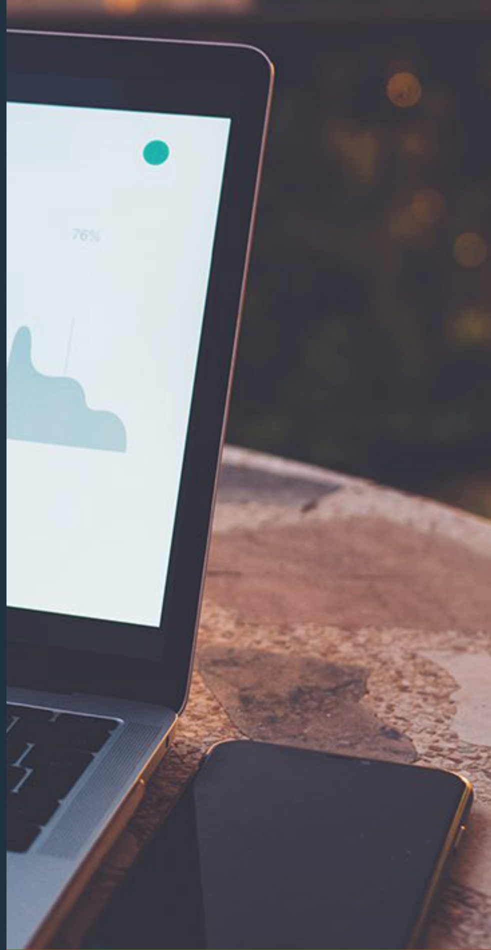
CAPITAL GAINS: HOW MUCH WILL YOU PAY IN 2024?



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If you sold a house in 2023, you may have to pay capital gains tax in 2024.

Anyone who sells a house must always declare the transaction to the Tax Authority. If you purchased the house after January 1, 1989, and sold it for more than the purchase price, you could be liable for taxes on the profit.

Capital gains refer to the profit you make from selling something for more than its purchase price. The government levies taxes on this profit. Here's a breakdown of how it works:

Typically, only half of your capital gains are subject to taxation. For example, if you made €80,000 from selling your house, you'd only be taxed on €40,000 for tax purposes.

However, if your property received financial assistance from the government for acquisition, construction, or renovation, and you sell it within ten years, you might be required to pay taxes on the entire profit.

What is the tax rate?

There's no fixed tax rate for property capital gains. They're combined with your other income, and the total determines your tax liability.

Therefore, if you sold a house in 2023, you'll settle taxes on your gains in 2024 when you reconcile your tax affairs.

How are they calculated?

To calculate your tax liability, you start by deducting the purchase price from the selling price. If it's been more than two years since you bought the house, you'll also adjust the purchase price for inflation.

Then, certain expenses are subtracted from that amount. These may include selling fees, maintenance costs, and taxes incurred during the purchase.

The expenses you can deduct are as follows:

Energy certificate;

Commissions paid to the real estate agency for the sale;

Maintenance and conservation works carried out in the last 12 years;

Stamp Duty (IS) at the time of purchase;

Municipal Property Transfer Tax (IMT);

Costs related to the purchase deed of the property;

Solicitor costs (if applicable);

Land registry fees.

Therefore, the formula for calculating capital gains is as follows:

Selling price (realization value) – (purchase price x currency depreciation coefficient) – (costs associated with acquisition and sale + expenses related to property appreciation)

Example of capital gains calculation

Let's consider a house purchased in 2008 for 150 thousand euros and sold in 2023 for 250 thousand euros. The costs borne by the owner were 14 thousand euros. In this case, we have:

250,000 – (150,000 × 1.20) – 14,000 = 56,000

This sale generated capital gains of 56 thousand euros, of which only 28 thousand (50%) will be taxed.

Note: The Tax Authority always considers the highest value between the purchase/sale price and the TAV (Taxable Asset Value) at the time of purchase/sale.

How are capital gains calculated for a house built by the owner?

In these situations, the calculation formula is the same, but the acquisition value considers the highest between:

The TAV (Taxable Asset Value) The value of the land, plus the construction costs duly proven

What if it's an inherited house?

If you sold a house you inherited, the acquisition value is the one used for stamp duty settlement at the time of inheritance. This is calculated based on the TAV listed in the property booklet up to two years before the inheritance.

Are there exemptions?

Before understanding the impact that capital gains taxation has on IRS, it is important to highlight some exemption scenarios. Examples include cases where the sold property is the main and permanent residence, and the realization value is used to buy another house for the same purpose in the 24 months prior to or 36 months after the transaction.

If there is a reinvestment of the entire amount, the exemption is total. However, if only a portion is reinvested, the exemption occurs in the same proportion. For example, if you reinvest 30%, the exemption will be 30% on the taxable amount.

Similarly, individuals over 65 years old or retired who reinvest the sale proceeds in an insurance contract (such as a PPR), a pension fund, or contribution to the public capitalization scheme are exempt.

Note: In reinvestment cases, the sale price of the house is taken into account, not the capital gains. That is, if you sell for 250 thousand euros, you are only fully exempt if you reinvest the entire amount.

What is the impact on IRS?

To illustrate how capital gains taxation affects IRS, let's use the value calculated in the example above, that is 56 thousand euros. The seller has a gross salary of 1,700 euros per month (23,800 euros annually).

Without exemption

Taxable amount: 28,000 euros

Collectible income: 47,696 euros (23,800 + 28,000 – specific deductions of 4,104 euros)

Total tax: 14,937.51 euros (47,696 × 43.5% – 5,810.25 euros), of which 10,750.80 belong to capital gains

This will not be the amount of IRS due, as deductions from the total tax still need to be subtracted. Hence, the net tax is obtained. If this is less than the amounts withheld at source throughout the year, you receive a refund. If it is higher, you must pay additional tax.

However, with this example, you can already understand how capital gains affect your IRS.

With total exemption

Taxable amount: 0 euros

Collectible income: 19,696 euros (4th bracket)

Total tax: 4,186.71 euros (19,696 × 28.5% – 1,426.65 euros)

With partial exemption after reinvestment of 30%

Taxable amount: 19,600 euros (28,000 – 30%)

Collectible income: 39,296 euros (7th bracket)

Total tax: 11,283.51 euros (39,296 × 43.5% – 5,810.25 euros), of which 7,096.80 belong to capital gains

How to declare?

When completing your tax return, you'll need to provide details of the sale if you purchased the house after January 1, 1989. If you reinvested any portion of the proceeds, that should also be disclosed.

If you purchased the house before January 1, 1989, you're not liable for taxes on the sale, but you're still required to report it.

For any inquiries or support, our team can guide you through the whole moving process. Feel free to reach out to us at **info@afm.tax** or visit **www.afm.tax**.

"YOU MUST PAY TAXES, BUT THERE'S NO LAW THAT SAYS YOU NEED TO LEAVE A TIP."