

Doron F. Eghbali Tax Law

What Are Some Tax Implications of Real Estate Flipping?

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In this uncertain and volatile real estate market, some people with available cash purchase relatively undervalued properties, make some improvements and wait to sell them at a profit. Despite the pros and cons of such real estate investment strategy, such investors should be wary of some of the most immediate tax implications of such practice.

SOME BACKGROUND ON REAL ESTATE FLIPPING

Flipping, generally, means purchasing distressed properties, fixing them up and then hopefully selling them at a profit. In real estate parlance, such practice is referred to as flipping. Nowadays, however, most flippers put up their own cash because of tightening lending standards and to some extent frozen credit market. Such flippers hope today's distressed properties will be sold at a profit or they break even even if the housing market does not astronomically appreciate in a foreseeable future.

SOME TAX IMPLICATIONS OF REAL ESTATE FLIPPING

- **NO TAX EXEMPTIONS OF \$250,000 OR \$500,000:** It is important to remember that even if you flip a residential property, such property is not your primary residence as far as the IRS is concerned. In fact, the residential property was purchased for investment purposes. As such, you cannot take advantage of tax exemption of \$250,000 or \$500,000 (if you are married and filing jointly) when you realize a gain on the property's sale.
- **ORDINARY TAX RATE APPLICABLE IF SOLD WITHIN THE FIRST YEAR OF PURCHASE:** It is also important to remember if you sell the property in less than a year since its purchase, any gain realized will be taxed at your ordinary income tax rate. This means, unless Congress acts, the highest ordinary income tax rate will be 39.6% as of January 2011 from the highest 35% tax rate now.
- **CAPITAL GAINS TAX RATES IF SOLD AFTER THE FIRST YEAR OF PURCHASE:** However, if you sell the property and realize a gain after the first year of purchase, then you will pay capital gains taxes. Capital gains taxes are now at 15% and unless Congress acts they will be at [20% as of January 2011](#).

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