

## **California Investment Property**

Effective January 1, 2003, California has passed a new law that drastically changes the required withholding taxes for selling investment property. The withholding rate is 3-1/3 percent of the total sales price. The withholding tax applies to both residents and nonresidents, selling investment property with a sales price greater than \$100,000. Exceptions to the withholding tax are made for non-individuals (corporations, S corporations, partnerships, LLC's), selling property within California. Other exceptions apply to individuals and we urge you to contact our office at the time you enter into escrow.

Effective December 26, 2002, the IRS has issued final regulations on excluding gain from the sale of a principal residence. In the past, the portion of the home used for a home office deduction was subject to capital gains taxes, and not eligible for the exclusion. The new law allows the portion of the home used as an office to be eligible for the exclusion, therefore avoiding capital gains taxes. However, depreciation recapture is still required for the portion of your home used as a home office. In addition, the exclusion does not apply to a home office that is not attached to the residence. This new law is retroactive for tax years 1999, 2000, and 2001.