

Tax Treatment of Settlement Costs on Purchase or Sale of Real Estate

Settlement Costs	Home Buyer	Home Seller	Rental/Investment Property Buyer	Rental/Investment Property Seller
Real estate taxes: city/town taxes, county taxes.	Deductible beginning on the date of purchase.	Deductible up to, but not including, the date of sale.	Deductible beginning on the date of purchase.	Deductible up to, but not including, the date of sale.
Assessments: condominium fees and homeowners' association fees.	Not deductible.	Not deductible.	Deductible beginning on the date of purchase.	Deductible up to, but not including, the date of sale.
Commission.	Increase basis.	Reduce amount realized.	Increase basis.	Reduce amount realized.
Loan origination fee, loan discount (points).	Deductible (including amounts paid by seller).	Reduce amount realized.	Amortize over term of loan.	Reduce amount realized.
Items payable in connection with loan: appraisal fee, credit report, lender's inspection fee, mortgage insurance application fee, assumption fee, mortgage broker fee.	Not deductible.	Reduce amount realized.	Amortize over term of loan.	Reduce amount realized.
Interest.	Deductible beginning on the date of purchase (amounts are usually included on Form 1098, Mortgage Interest Statement).	Deductible up to, but not including, the date of sale.	Deductible beginning on the date of purchase (amounts are usually included on Form 1098, Mortgage Interest Statement).	Deductible up to, but not including, the date of sale.
Items required by lender to be paid in advance: mortgage insurance premium, hazard insurance premium, flood insurance.	Not deductible.	Not deductible.	Deductible beginning on the date of sale.	Deductible up to, but not including, the date of sale.
Reserves deposited with lender: hazard insurance, mortgage insurance, city property taxes, county property taxes, annual assessments.	Not deductible.	Not deductible.	Not deductible.	Not deductible.
Items payable in connection with title charges: Settlement or closing fee, abstract or title search, title examination, title insurance binder, document preparation, notary fees, attorney's fees, title insurance (lender's coverage and owner's coverage).	Increase basis.	Reduce amount realized.	Increase basis.	Reduce amount realized.
Government recording and transfer charges: recording fees, city/county tax/stamps, state tax/stamps.	Increase basis.	Reduce amount realized.	Increase basis.	Reduce amount realized.
Additional settlement charges: survey, pest, and other inspections, lead-based paint inspections.	Increase basis.	Reduce amount realized.	Increase basis.	Reduce amount realized.

Tax Treatment of Stock Options (See Employee Stock Options, [page 6-18](#))

	Nonstatutory Stock Option		Statutory Stock Option/Incentive Stock Option (ISO)	
Income subject to... ¹	Regular tax	AMT	Regular tax	AMT
At Grant Date	Not subject to tax unless the FMV of the option is readily determined.	No AMT adjustment required.	Not subject to tax.	No AMT adjustment required.
At Exercise Date	Substantially vested stock: An amount equal to the FMV of the option minus the exercise price is treated as compensation. Restricted stock: Defer recognition until substantially vested.	No AMT adjustment required.	Not subject to tax.	Positive AMT adjustment equal to FMV of option minus exercise price. No adjustment is required if stock is exercised and sold in the same year.
At the Date of Sale (Required holding period is not met)²	The holding period requirement is not applicable to nonstatutory stock options. Income is subject to short-term or long-term capital gain or loss treatment. Basis equals amount treated as compensation plus exercise price. A same-day exercise/sell transaction typically generates compensation equal to the FMV of the option minus the exercise price and a short-term capital loss equal to the broker transaction fees.	No AMT adjustment required.	If the sale results in a gain: An amount equal to the FMV of the options minus the exercise price is treated as compensation; excess gain is capital gain. If the sale results in a loss: The loss is a capital loss.	Negative AMT adjustment equal to the positive AMT adjustment required at the exercise date. No adjustment is required if stock is exercised and sold in the same year.
At the Date of Sale (Required holding period is met)²			Income subject to capital gain or loss treatment.	Negative AMT adjustment equal to the positive AMT adjustment required at the exercise date.

¹ Stock options exercised or restricted stock units (RSUs) settled after December 31, 2017, are eligible for a deferral of income election. See *Election to defer income on stock options*, [page 6-18](#).

² Required holding period for statutory stock options is one year from exercise date and two years from grant date.