

The Fair Share Millionaire Tax and Home Sales: What 2021 Data Shows

By La-Brina Almeida and Phineas Baxandall

Based on industry data from the Warren Group¹ on home sales in Massachusetts, [previous analysis](#) has shown how rare it is that a sale might generate taxable capital gains of \$1 million or more.

Given a \$500,000 tax exclusion for couples, less than one percent of home sales would generate taxable income over \$1 million. These findings are relevant as voters consider a “millionaire tax” that would tax yearly income over \$1 million at a higher rate than other income.

But what does the data say about home sales that might have created taxable income over \$1 million in 2021?

Taxes on Home Sales

The taxable income from a home sale is considerably less than the sale price. Income tax is paid on the amount of capital *gain* realized from the sale. In calculating this gain, the seller **subtracts the cost** they paid for the property. **Deduction of brokerage and other selling costs** will further reduce estimates of taxable capital gains. If the seller uses a real estate broker, the seller often pays a commission equal to 5 to 6 percent of sale price. In addition, sellers may pay attorney fees, excise tax stamps equal to a minimum of almost 0.5 percent of sale price, plus any additional costs such as advertising or staging the home for sale. Sellers also subtract the cost of improvements, such as an addition, kitchen renovation, new roof, storm windows, deck, or a home security system.² Taxable gains in a home’s value are also reset to zero when it is passed down to inheritors.

Finally, married couples selling their primary residence can exclude \$500,000 of the resulting gains from taxes (\$250,000 for singles). Each of these steps would reduce the gain, and thus reduce the amount of home sale income that is taxable. The potential passage of the Fair Share Amendment would not change this process.

Homes That Produce Million Dollar Gains in Massachusetts

Only 895 homes sold in all of 2021 could have generated a capital gain over \$1 million after the joint filing exclusion. In a majority of Massachusetts cities and towns, [zero home sales](#) generated a capital gain over \$1.5 million. Examining the home sales that could have generated capital gains at this level or more in 2021, their average characteristics are hardly that of a middle-class home:

- The average sale price was \$3,780,000.

- The **average price at which the seller had bought their home was \$1.1 million**, and that home had been purchased 14 years ago.
- These home sales are **geographically concentrated**. In only [five of Massachusetts municipalities](#) out of 351 cities and towns did at least 20 percent of home sales generate capital gains of \$1.5 million or more: all in Nantucket, Martha’s Vineyard, or Weston.

This information about home sales with potential for taxable capital gains under Fair Share also suggests additional factors that would considerably reduce the number of sales with taxable gains over \$1 million. The analysis above does not consider how many home sales follow the death of the owner, an event that resets all capital gains to zero at that point for those inheriting a home.

Among this unusual subset of homes, the potential for **deductible Improvement costs** could be quite high, which would considerably reduce the number of homes generating taxable gains over \$1 million. In order to generate such extraordinary increases in price between sales, many of these homes may have been extensively renovated, enlarged, or modernized. A majority of these homes were owned for at least a decade, creating ample time and opportunity for deductible improvements. Deductions for these costs on top of the brokerage costs further reduces the number of home sales that would result in taxable capital gains over \$1 million.

Endnotes

¹ The Warren Group; A Massachusetts-based national real estate and mortgage data provider. Data provided for homes sold throughout Calendar Year 2021.

² On the growing costs of increasingly discretionary home improvements, especially among upper income households, see Joint Center on Housing Studies of Harvard University, “[Improving America’s Housing: 2021](#)” (March 2021).