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A Preliminary Assessment of the New Home Seller Capital Gains Law

Thomas Bier
Cleveland State University, t.bier@csuohio.edu

Ivan Maric

Winifred Weizer
Cleveland State University, w.weizer@csuohio.edu

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A Preliminary Assessment of the New Home Seller Capital Gains Law
Tom Bier, Ivan Maric, and Winifred Weizer
Housing Policy Debate, vol. 11, issue 3
Fannie Mae Foundation 2000

Abstract

In August 1997, the capital gains law was changed to enable most sellers to move down in price without incurring a tax liability. The previous law was critiqued as detrimental to cities by promoting out-migration to higher-priced homes; it was asserted that the requirement that sellers buy a home equal to or greater than the value of the one they sold to defer tax liability obstructed movement down in price. This study asked whether movement down in price increased in four Ohio cities after the law was changed and whether movement out of the central cities decreased and movement in from the suburbs increased.

Statistically significant change in movement down was found in only one city. Movement up in price and outward dominated all four areas. The study produced no direct evidence of the factors that influenced seller-buyer move decisions. The process of life-course change—younger households moving up to larger, more expensive homes and older households moving down to smaller, less expensive properties—was probably the driving force.