

INTERNAL REVENUE SERVICE

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The Honorable Phil Gramm
United States Senator
2323 Bryan Street, #2150
Dallas, Texas 75201

Attention: Michael FitzGerald

Dear Senator Gramm:

This letter is in response to your inquiry dated January 17, 2001, on behalf of your constituent, [REDACTED] believe the federal law imposes a flat 39 percent tax on the proceeds of the sale of a second residence.

[REDACTED] understanding is not correct. Under the Internal Revenue Code, only the gain, not the proceeds, from the sale of property is taxed. Enclosed is a copy of Publication 544, *Sales and Other Dispositions of Assets*, which explains how to calculate and report the gain on the sale of property. Further information is contained in the instructions for Schedule D, Capital Gains and Losses, which is part of the Form 1040 and instructions mailed to individual taxpayers.

I hope this information is helpful. Please call John T. Sapienza, Jr., Identification Number 50-6383, at (202) 622-4920, if you have any questions.

Sincerely,

Heather C. Maloy
Associate Chief Counsel
(Income Tax & Accounting)

Enclosure