FOR LONG-HELD CALIFORNIA HOMES

The Cost Basis Worksheet

Every documented improvement lowers your taxable gain. On a home held for decades, this worksheet is often worth more per hour than anything else you'll do.

Why this matters in dollars. Your taxable gain is the sale price, minus selling costs, minus your *adjusted basis*. Adjusted basis is what you paid, plus capital improvements (IRC §1016). Every $10,000 of improvement you can document saves roughly $2,000–$3,300 in combined federal and California tax at typical Bay Area rates. A garage conversion, a re-roof and a kitchen from the 1990s can easily total $150,000 — worth $30,000 to $50,000 in tax. The IRS wants records. Go find them.

What counts, and what doesn't

The line is **improvement** versus **repair**. An improvement adds value, prolongs the home's life, or adapts it to a new use. A repair just keeps it working. Improvements add to basis; ordinary repairs do not.

Counts — adds to basis	Doesn't count
Additions: rooms, decks, garages, porches, ADUs	Repainting a room
A new roof (replacement, not patching)	Patching the roof
New HVAC, furnace, water heater, ductwork	Servicing the furnace
Kitchen and bathroom remodels	Replacing a broken window pane
Re-piping, electrical rewiring, panel upgrades	Fixing a leak
Foundation and structural work, retrofits	Routine gutter cleaning
New flooring, built-ins, permanent fixtures	Carpet cleaning
Landscaping, retaining walls, driveways, fences	Mowing and pruning
Solar, EV chargers, permanent generators	Replacing a light bulb
Windows, insulation, siding, exterior doors	Re-caulking a tub
Septic, well, sewer lateral replacement	Pumping the septic tank

Counts — adds to basis	Doesn't count
Purchase closing costs: title, transfer tax, legal, survey	Your mortgage interest

Note: a repair done as part of a larger remodel generally gets folded into the improvement. And if an improvement was later fully replaced — a 1994 roof replaced in 2016 — only the one still there counts.

Where to actually find the records

Almost nobody has kept 30 years of receipts. You are reconstructing, and reconstruction is legitimate — contemporaneous corroboration is what you are after.

Source	What you'll get	How to get it
County building department permit history	Dated record of every permitted job: re-roofs, additions, electrical, plumbing, solar. Often the single richest source.	Santa Clara County: your city's building department (permits are issued by city, not county). Santa Cruz County: County Planning, 701 Ocean St. Most now have online permit portals.
Bank and credit card archives	Payments to contractors, tile stores, lumber yards	Most banks keep 7 years online, longer on request. Ask specifically for archived statements.
Old HELOC or refinance files	People borrow to renovate. The loan file often names the project and the amount.	Your lender, or the loan docs in your own files.
The contractors themselves	Invoices, scopes of work	CSLB license lookup finds them if the business still exists. Many keep old job files.
Photographs	Proof the work was done and roughly when	Your own albums, phone backups. Before-and-after pictures corroborate a reconstructed cost.
Insurance claim files	Storm, fire, or water damage rebuilds	Your carrier. Note: an improvement funded by insurance proceeds has its own basis rules — ask your CPA.
HOA records	Special assessments for capital projects — these can add to your basis in a condo	The HOA management company.

Worksheet — fill this in

Step 1. Your starting basis

Item	Amount	Where documented

Original purchase price · purchase closing costs (title, escrow, transfer tax, legal, survey) · if inherited, use the date-of-death value instead and note the appraisal.

Step 2. Capital improvements, by year

Year	What was done	Cost	Documentation held

Year	What was done	Cost	Documentation held

Step 3. Subtractions — be honest about these

Some things *reduce* basis. Depreciation you claimed (or could have claimed) for a home office or a rental period after May 6, 1997 comes back as unrecaptured §1250 gain, taxed at up to 25%, and it is **not** covered by the §121 exclusion. Casualty loss deductions and certain energy credits also reduce basis.

Item	Amount	Notes

Step 4. The total

	Amount

Starting basis + improvements – subtractions = adjusted basis. Hand this to your CPA with the backup attached.

> **What to do with this.** Do not throw away the backup once you've totalled it. Keep the receipts, permits and photos in one folder for at least three years after the sale — longer if the numbers are large. If the IRS ever asks, the worksheet is your summary and the folder is your evidence. And bring it to your CPA *before* you go into contract, not in April.

Before you rely on any of this

This guide is general education, not legal, tax, or investment advice. I am a real estate broker — not an attorney and not a CPA. Deadlines and dollar figures change, and your situation has facts this guide cannot know. Confirm anything that matters with your attorney and your CPA before you act on it.

Questions, or want this run against your actual numbers? That conversation is free and there is no obligation attached to it.

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