

# Publication 523

## Selling Your Home

For use in preparing  
**2024** Returns

Volume 1 of 2



Publication 523 (Rev 2024) Catalog Number 39274S  
Department of the Treasury **Internal Revenue Service** [www.irs.gov](http://www.irs.gov)



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## Future Developments

For the latest information about developments related to Pub. 523, such as legislation enacted after it was published, go to *IRS.gov/Pub523*.

## Reminders

**Home energy tax credits.** Home improvements that use clean energy, or otherwise add to energy efficiency, may qualify for home energy tax credits, which were extended, increased, and/or modified by the Inflation Reduction Act, P. L. 117-169, sections 13301 and 13302. These credits are detailed in *Energy credits and subsidies*. See sections 25C and 25D. For more information, see IRS News Release 2024-137,

May 9, 2024, available at [IRS.gov/newsroom/irs-home-improvements-could-help-taxpayersqualify-for-home-energy-credits](https://www.irs.gov/newsroom/irs-home-improvements-could-help-taxpayersqualify-for-home-energy-credits).

**Special rules for capital gains invested in Qualified Opportunity Funds.** Effective December 22, 2017, section 1400Z-2 provides a temporary deferral of inclusion in gross income for capital gains invested in Qualified Opportunity Funds, and permanent exclusion of capital gains from the sale or exchange of an investment in the Qualified Opportunity Fund if the investment is held for at least 10 years. For more information, see the Instructions for Form 8949.

**Extension of the exclusion of canceled or forgiven mortgage debt from income.** The exclusion of income for mortgage debt canceled or forgiven was extended through December 31, 2025.

The indebtedness discharged must generally be on a qualified principal residence, and based on an agreement, in writing, prior to January 1, 2026. See Report as ordinary income on Form 1040, 1040-SR, or 1040-NR applicable canceled or forgiven mortgage debt, later.

**Photographs of missing children.** The IRS is a proud partner with the [National Center for Missing & Exploited Children® \(NCMEC\)](#). Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 800-THE-LOST (800-843-5678) if you recognize a child.

## **Introduction**

This publication explains the tax rules that apply when you sell or otherwise give up ownership of a home.

If you meet certain conditions, you may exclude the first \$250,000 of gain from the sale of your home from your income and avoid paying taxes on it. The exclusion is increased to \$500,000 for a married couple filing jointly.

This publication also has worksheets for calculations relating to the sale of your home. It will show you how to:

1. Figure your maximum exclusion, using Worksheet 1, Publication 523 (2024) Catalog Number 15044W
2. Determine if you have a gain or loss on the sale or exchange of your home, using Worksheet 2,
3. Figure how much of any gain is taxable (if any) using Worksheet 3, and
4. Report the transaction correctly on your tax return, using guidance included in Worksheet 3.

**Comments and suggestions.** We welcome your comments about this publication and suggestions for future editions.

You can send us comments through [IRS.gov/FormComments](https://www.irs.gov/FormComments). Or, you can write to the Internal Revenue Service, Tax Forms and Publications, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224.

Although we can't respond individually to each comment received, we do appreciate your feedback and will consider your comments and suggestions as we revise our tax forms, instructions, and publications.

**Don't** send tax questions, tax returns, or payments to the above address.

***Getting answers to your tax questions.*** If you have a tax question not answered by this publication or the *How To Get Tax Help* section at the end of this publication, go to



the IRS Interactive Tax Assistant page at [IRS.gov/ Help/ITA](https://www.irs.gov/Help/ITA) where you can find topics by using the search feature or viewing the categories listed.

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# Useful Items

You may want to see:

## Publication

- ☐ **504** Divorced or Separated Individuals
- ☐ **505** Tax Withholding and Estimated Tax
- ☐ **527** Residential Rental Property
- ☐ **530** Tax Information for Homeowners
- ☐ **537** Installment Sales
- ☐ **544** Sales and Other Dispositions of Assets
- ☐ **547** Casualties, Disasters, and Thefts
- ☐ **551** Basis of Assets
- ☐ **587** Business Use of Your Home
- ☐ **936** Home Mortgage Interest Deduction

☐ **4681** Canceled Debts, Foreclosures, Repossessions, and Abandonments

☐ **5797** Home Energy Tax Credits

**Form (and Instructions)**

☐ **Schedule A (Form 1040)** Itemized Deductions

☐ **Schedule B (Form 1040)** Interest and Ordinary Dividends

☐ **Schedule D (Form 1040)** Capital Gains and Losses

☐ **982** Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment)

☐ **1040** U.S. Individual Income Tax Return

☐ **1040-NR** U.S. Nonresident Alien Income Tax Return

☐ **1040-SR** U.S. Income Tax Return for Seniors

- ☐ **1099-S** Proceeds From Real Estate Transactions
- ☐ **4797** Sales of Business Property
- ☐ **5405** 5405 Repayment of the First-Time Homebuyer Credit
- ☐ **6252** Installment Sale Income
- ☐ **8822** Change of Address
- ☐ **8828** Recapture of Federal Mortgage Subsidy
- ☐ **8908** Energy Efficient Home Credit
- ☐ **8949** Sales and Other Dispositions of Capital Assets
- ☐ **W-2** Wage and Tax Statement
- ☐ **W-7** Application for IRS Individual Taxpayer Identification Number

# Does Your Home Sale Qualify for the Exclusion of Gain?

The tax code recognizes the importance of home ownership by allowing you to exclude gain when you sell your main home. To qualify for the maximum exclusion of gain (\$250,000 or \$500,000 if married filing jointly), you must meet the Eligibility Test, explained later. To qualify for a partial exclusion of gain, meaning an exclusion of gain less than the full amount, you must meet one of the situations listed in Does Your Home Qualify for a Partial Exclusion of Gain, later.

Before considering the Eligibility Test or whether your home qualifies for a partial exclusion, you should consider some preliminary items.

**Transfer of your home to a spouse or an ex-spouse.** Generally, if you transferred your home (or share of a jointly owned home) to a spouse or ex-spouse as part of a divorce

settlement, you are considered to have no gain or loss. You have nothing to report from the transfer and this entire publication doesn't apply to you. However, if your spouse or ex-spouse is a nonresident alien, then you likely will have a gain or loss from the transfer and the tests in this publication apply.

**Home's date of sale.** To determine if you meet the Eligibility Test or qualify for a partial exclusion, you will need to know the home's date of sale, meaning when you sold it. If you received Form 1099-S, Proceeds From Real Estate Transactions, the date of sale appears in box 1. If you didn't receive Form 1099-S, the date of sale is either the date the title transferred or the date the economic burdens and benefits of ownership shifted to the buyer, whichever date is earlier. In most cases, these dates are the same.

**Sale of your main home.** You may take the exclusion, whether maximum or partial, only on the sale of a home that is your principal residence, meaning your main home. An individual has only one main home at a time. If you own and live in just one home, then that property is your main home. If you own or live in more than one home, then you must apply a "facts and circumstances" test to determine which property is your main home. While the most important factor is where you spend the most time, other factors are relevant as well. They are listed below. The more of these factors that are true of a home, the more likely that it is your main home.

- The address listed on your:
  1. U.S. Postal Service address,
  2. Voter Registration Card,
  3. Federal and state tax returns, and
  4. Driver's license or car registration.

- The home is near:
  1. Where you work,
  2. Where you bank,
  3. The residence of one or more family members, and
  4. Recreational clubs or religious organizations of which you are a member.

Finally, the exclusion can apply to many different types of housing facilities. A single-family home, a condominium, a cooperative apartment, a mobile home, and a houseboat each may be a main home and therefore qualify for the exclusion.

## **Eligibility Test**

The Eligibility Test determines whether you are eligible for the maximum exclusion of gain (\$250,000 or \$500,000 if married filing jointly).



## **Eligibility Step 1—Automatic Disqualification**

**Determine whether any of the automatic disqualifications apply.** Your home sale isn't eligible for the exclusion if ANY of the following are true.

- You acquired the property through a like-kind exchange (1031 exchange), during the past 5 years. See Pub. 544, Sales and Other Dispositions of Assets.
- You are subject to expatriate tax. For more information about expatriate tax, see chapter 4 of Pub. 519, U.S. Tax Guide for Aliens.

If any of these conditions are true, the exclusion doesn't apply. Skip to *Figuring Gain or Loss*, later.

## **Eligibility Step 2—Ownership**

**Determine whether you meet the ownership requirement.** If you owned the home for at least 24 months (2 years) out of the last 5 years leading up to the date of sale (date of the closing), you meet the ownership requirement. For a married couple filing jointly, only one spouse has to meet the ownership requirement.

## **Eligibility Step 3—Residence**

**Determine whether you meet the residence requirement.** If you owned the home and used it as your residence for at least 24 months of the previous 5 years, you meet the residence requirement. The 24 months of residence can fall anywhere within the 5-year period, and it doesn't have to be a single block of time. All that is required is a total of 24 months (730 days) of residence during the 5-year period. Unlike the ownership requirement,

each spouse must meet the residence requirement individually for a married couple filing jointly to get the full exclusion.

***If you were ever away from home,*** you need to determine whether that time counts toward your residence requirement. A vacation or other short absence counts as time you lived at home (even if you rented out your home while you were gone).

***If you become physically or mentally unable to care for yourself,*** and you use the residence as your main home for at least 12 months in the 5 years preceding the sale or exchange, any time you spent living in a care facility (such as a nursing home) counts toward your 2-year residence requirement, so long as the facility has a license from a state or other political entity to care for people with your condition.

## **Eligibility Step 4—Look-Back**

**Determine whether you meet the look-back requirement.** If you didn't sell another home during the 2-year period before the date of sale (or, if you did sell another home during this period, but didn't take an exclusion of the gain earned from it), you meet the look-back requirement. You may take the exclusion only once during a 2-year period.

## **Eligibility Step 5—Exceptions to the Eligibility Test**

There are some exceptions to the Eligibility Test. If any of the following situations apply to you, read on to see if they may affect your qualification. If none of these situations apply, skip to Step 6.

- A separation or divorce occurred during the ownership of the home. See *Separated or divorced taxpayers*.

- The death of a spouse occurred during the ownership of the home. See *Surviving spouses*.
- The sale involved vacant land. See *Vacant land next to home*.
- You owned a remainder interest, meaning the right to own a home in the future, and you sold that right. See *Remainder interest*.
- Your previous home was destroyed or condemned. See *Home destroyed or condemned—considerations for benefits*.
- You were a service member during the ownership of the home. See *Service, Intelligence, and Peace Corps personnel*.
- You acquired or are relinquishing the home in a like-kind exchange. See *Like-kind/1031 exchange*.

- You used a portion of the real property, separate from the living space, for business or rental use, and you didn't use any of the separate portion for residential use for 2 years out of the 5 years leading up to the sale. See *Property Used Partly for Business or Rental*.
- You or your spouse (or former spouse) used the entire property as a vacation home or rental after 2008. See *Business or Rental Use of Home*.

**Separated or divorced taxpayers.** If you were separated or divorced prior to the sale of the home, you can treat the home as your residence if:

- You are a sole or joint owner, and
- Your spouse or former spouse is allowed to live in the home under a divorce or separation agreement and uses the home as his or her main home.

If your home was transferred to you by a spouse or ex-spouse (whether in connection with a divorce or not), you can count any time when your spouse owned the home as time when you owned it. However, you must meet the residence requirement on your own. If you owned your home prior to your marriage and after your divorce or separation, and your spouse or former spouse isn't allowed to live in the home under a divorce or separation agreement, you can count any time that you owned the home, solely or jointly with your spouse, as time when you owned it. However, you must meet the residence requirement on your own.

**Surviving spouses.** If you are a surviving spouse who doesn't meet the 2-year ownership and residence requirements on your own, consider the following rule. If you haven't remarried at the time of the sale, then you may include any time when your

late spouse owned and lived in the home, even if without you, to meet the ownership and residence requirements.

Also, you may be able to increase your exclusion amount from \$250,000 to \$500,000. You may take the higher exclusion if you meet all of the following conditions.

1. You sell your home within 2 years of the death of your spouse;
2. You haven't remarried at the time of the sale;
3. Neither you nor your late spouse took the exclusion on another home sold less than 2 years before the date of the current home sale; and
4. You meet the 2-year ownership and residence requirements (including your late spouse's times of ownership and residence, if applicable).



**Service, Intelligence, and Peace Corps personnel.** If you or your spouse are a member of the Uniformed Services or the Foreign Service, an employee of the intelligence community of the United States, or an employee, enrolled volunteer or volunteer leader of the Peace Corps, you may choose to suspend the 5-year test period for ownership and residence when you're on qualified official extended duty. This means you may be able to meet the 2-year residence test even if, because of your service, you didn't actually live in your home for at least the 2 years during the 5-year period ending on the date of sale. Make the election by filing your tax return for the year of the sale or exchange of your main home, and exclude the gain from your taxable income.

***Qualified extended duty.*** You are on qualified extended duty if:

- You are called or ordered to active duty for an indefinite period, or for a definite period of more than 90 days.
- You are serving at a duty station at least 50 miles from your main home, or you are living in government quarters under government orders.
- You are one of the following:
  1. A member of the armed forces (Army, Navy, Air Force, Marine Corps, Space Force, Coast Guard);
  2. A member of the commissioned corps of the National Oceanic and Atmospheric Administration (NOAA) or the Public Health Service;
  3. A Foreign Service chief of mission, ambassador-at-large, or officer;

4. A member of the Senior Foreign Service or the Foreign Service personnel;
5. An employee, enrolled volunteer, or enrolled volunteer leader of the Peace Corps serving outside the United States; or
6. An employee of the intelligence community, meaning:
  - a. The Office of the Director of National Intelligence, the Central Intelligence Agency, the National Security Agency, the Defense Intelligence Agency, the National Geospatial-Intelligence Agency, or the National Reconnaissance Office;
  - b. Any other office within the Department of Defense for the collection of specialized national

intelligence through  
reconnaissance programs;

- c. Any of the intelligence elements of the Army, Navy, Air Force, Marine Corps, Federal Bureau of Investigation, Department of the Treasury, Department of Energy, and Coast Guard;
- d. The Bureau of Intelligence and Research of the Department of State; or
- e. Any of the elements of the Department of Homeland Security concerned with the analyses of foreign intelligence information.

***Period of suspension.*** The period of suspension can't last more than 10 years. Together, the 10-year suspension period and the 5-year test period can be as long as, but no more than, 15 years.

You can't suspend the 5-year period for more than one property at a time. You can revoke your choice to suspend the 5-year period at any time.

**Example 1.** You bought a home on May 1, 2008. You used it as your main home until August 27, 2011. On August 28, 2011, you went on qualified official extended duty with the Navy. You didn't live in the house again before selling it on August 1, 2024. You choose to use the entire 10-year suspension period. Therefore, the suspension period would extend back from August 1, 2024, to August 2, 2014, and the 5-year test period would extend back to August 2, 2009. During that period, you owned the house all 5 years and lived in it as your main home from August 2, 2009, until August 28, 2011, a period of more than 24 months. You meet the ownership and use tests because you owned and lived in the home for at least 2 years during this test period.

**Example 2.** You bought and moved into a home in 2015. You lived in it as your main home for 3<sup>1</sup>/<sub>2</sub> years. For the next 6 years, you didn't live in it because you were on qualified official extended duty with the Army. You then sold the home at a gain in 2024. To meet the use test, you choose to suspend the 5-year test period for the 6 years you were on qualified official extended duty. This means you can disregard those 6 years. Therefore, your 5-year test period consists of the 5 years before you went on qualified official extended duty. You meet the ownership and use tests because you owned and lived in the home for 3<sup>1</sup>/<sub>2</sub> years during this test period.

**Vacant land next to home.** You can include the sale of vacant land adjacent to the land on which your home sits as part of a sale of your home if ALL of the following are true.

- You owned and used the vacant land as part of your home.

- The sale of the vacant land and the sale of your home occurred within 2 years of each other.
- Both sales either meet the Eligibility Test or qualify for partial tax benefits, as described earlier.

Also, if your sale of vacant land meets all these requirements, you must treat that sale and the sale of your home as a single transaction for tax purposes, meaning that you may apply the exclusion only once.

**Note.** However, if you move your home from the land on which it stood (meaning you relocate the actual physical structure), then that land no longer counts as part of your home. For example, if you move a mobile home to a new lot and sell the old lot, then you can't treat the sale of the old lot as the sale of your home.

**Home destroyed or condemned—considerations for benefits.** If an earlier home of yours was destroyed or condemned, you may be able to count your time there toward the ownership and residence test.

If your home was destroyed, see Pub. 547, Casualties, Disasters, or Thefts. If your home was condemned, see Pub. 544, Sales and Other Disposition of Assets.

**Remainder interest.** The sale of a remainder interest in your home is eligible for the exclusion only if both of the following conditions are met.

- The buyer isn't a "related party." A related party can be a related person or a related corporation, trust, partnership, or other entity that you control or in which you have an interest.
- You haven't previously sold an interest in the home for which you took the exclusion.



**Like-kind/1031 exchange.** If you sold a home that you acquired in a like-kind exchange, then the following test applies.

You can't claim the exclusion if:

1. Either (a) or (b) applies:
  - a. You acquired your home in a like-kind exchange (also known as a section 1031 exchange), or
  - b. Your basis in your home is determined by reference to a previous owner's basis, and that previous owner acquired the property in a like-kind exchange (for example, the owner acquired the home and then gave it to you); and
2. You sold the home within 5 years of the date your home was acquired in the like-kind exchange.

A main home isn't available for exchange because the exchange must be between like-kind real property held for productive use in a trade or business or for investment. Also, real property held primarily for sale isn't eligible for deferral of gain under section 1031. For an exchange of rental property that was later converted to personal use as a main home, there is a 5-year holding period required under section 121(d)(10). A separate 2-year holding period is required for exchanges between related persons under section 1031(f). See Pub. 544.

If you convert your main home to a rental property (or use a portion of the living area for productive use in a trade or business as in Rev. Proc. 2005-14, examples 3– 6), the exchange rules under section 1031 and exclusion of income rules under section 121 may both apply.

If the requirements of both sections 1031 and 121 are met, the section 121 exclusion is applied first to realized gain; section 1031 then applies, including any gain attributable to depreciation deductions. Any cash received in exchange for the rental property is taken into account only to the extent the cash exceeds the section 121 excluded gain on the rental property given up in the exchange. The period before the exchange that is after the last date the property was used as a main home isn't considered nonqualified use for purposes of the proration rules of section 121. To figure basis of the property received in the exchange (replacement property), any gain excluded under section 121 is added to your basis of your replacement property, similar to the treatment of recognized gain. You can't convert the replacement property to a main home immediately after the exchange per section 1031(a)(1), which requires that replacement property be held either for investment,

or for productive use in a trade or business. For more information about like-kind exchanges, see Pub. 544.

For additional information about the intersection of sections 121 and 1031, see Rev. Proc. 2005-14, 2005-7

I.R.B. 528, available at [IRS.gov/irb/2005-07\\_IRB#RP-2005-14](https://www.irs.gov/irb/2005-07_IRB#RP-2005-14). Please note, however, that any period after 2008 during which the property isn't used as a principal residence is, with certain exceptions, considered nonqualified use of that property for which gain allocable to such period may not be excluded, in accordance with section 121(b)(5). This includes property that is separate from the main property and not a part of the living area of the main home that isn't used as a principal residence for a period after 2008. See section 121(b)(5) (C). See also Rev. Proc. 2005-14 for examples that illustrate how to allocate basis and gain

realized in an exchange that is also eligible for section 121 exclusion, as well as details of depreciation recapture.

## **Eligibility Step 6—Final Determination of Eligibility**

If you meet the ownership, residence, and look-back requirements, taking the exceptions into account, then you meet the Eligibility Test. Your home sale qualifies for the maximum exclusion. Skip to Worksheet 1, later.

If you didn't meet the Eligibility Test, then your home isn't eligible for the maximum exclusion, but you should continue to *Does Your Home Qualify for a Partial Exclusion of Gain*.

## **Does Your Home Qualify for a Partial Exclusion of Gain?**

If you don't meet the Eligibility Test, you may still qualify for a partial exclusion of gain.

You can meet the requirements for a partial exclusion if the main reason for your home sale was a change in workplace location, a health issue, or an unforeseeable event.

## **Work-Related Move**

You meet the requirements for a partial exclusion if any of the following events occurred during your time of ownership and residence in the home.

- You took or were transferred to a new job in a work location at least 50 miles farther from the home than your old work location. For example, your old work location was 15 miles from the home and your new work location is 65 miles from the home.
- You had no previous work location and you began a new job at least 50 miles from the home.

- Either of the above is true of your spouse, a co-owner of the home, or anyone else for whom the home was their residence.

## **Health-Related Move**

You meet the requirements for a partial exclusion if any of the following health-related events occurred during your time of ownership and residence in the home.

- You moved to obtain, provide, or facilitate diagnosis, cure, mitigation, or treatment of disease, illness, or injury for yourself or a family member.
- You moved to obtain or provide medical or personal care for a family member suffering from a disease, illness, or injury. A family member includes your:
  1. Parent, grandparent, stepmother, stepfather;

2. Child (including adopted child, eligible foster child, and stepchild), grandchild;
3. Brother, sister, stepsibling;
4. Mother-in-law, father-in-law, brother-in-law, sister-in-law, son-in-law, daughter-in-law;
5. Uncle, aunt, nephew, or niece.
  - A doctor recommended a change in residence for you because you were experiencing a health problem.
  - The above is true of your spouse, a co-owner of the home, or anyone else for whom the home was their residence.

## **Unforeseeable Events**

You meet the standard requirements if any of the following events occurred during the time you owned and lived in the home you sold.



- Your home was destroyed or condemned.
- Your home suffered a casualty loss because of a natural or man-made disaster or an act of terrorism. (It doesn't matter whether the loss is deductible on your tax return.)
- You, your spouse, a co-owner of the home, or anyone else for whom the home was their residence:
  1. Died;
  2. Became divorced or legally separated, or were issued a separate decree to pay maintenance (support) to the other spouse;
  3. Gave birth to two or more children from the same pregnancy;
  4. Became eligible for unemployment compensation;

5. Became unable, because of a change in employment status, to pay basic living expenses for the household (including expenses for food, clothing, housing, medication, transportation, taxes, court-ordered payments, and expenses reasonably necessary for making an income).
6. An event is determined to be an unforeseeable event in IRS published guidance.

## **Other Facts and Circumstances**

Even if your situation doesn't match any of the standard requirements described above, you still may qualify for an exception. You may qualify if you can demonstrate the primary reason for sale, based on facts and circumstances, is work related, health related, or unforeseeable. Important factors are:

- The situation causing the sale arose during the time you owned and used your property as your residence.
- You sold your home not long after the situation arose.
- You couldn't have reasonably anticipated the situation when you bought the home.
- You began to experience significant financial difficulty maintaining the home.
- The home became significantly less suitable as a main home for you and your family for a specific reason.

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Worksheet 1. Find Your Exclusion Limit

Keep for Your Records 

Use this worksheet only if no [automatic disqualifications](#) apply, and take all [exceptions](#) into account.

A) Determine if you are eligible for the maximum exclusion limit.			
Status	You are eligible for the maximum exclusion if...	Maximum exclusion	If you're not eligible for the maximum exclusion limit, then you should...
Married filing jointly	Both spouses meet the residence and look-back requirements and one or both spouses meet the ownership requirement.	\$500,000	Determine if either spouse is eligible for the full limit as a single person. If not, determine if either spouse is eligible for a <a href="#">partial exclusion</a> .
Single, married filing separately	You meet the residence, ownership, and look-back requirements.	\$250,000	Determine if you are eligible for a <a href="#">partial exclusion</a> .
Surviving spouse	1. You sell your home within 2 years of the death of your spouse. 2. You haven't remarried at the time of the sale. 3. Neither you nor your late spouse took the exclusion on another home sold less than 2 years before the date of the current home sale. 4. You meet the 2-year ownership and residence requirements (including your late spouse's times of ownership and residence, if applicable).	\$500,000	Determine if you are eligible for the full limit as a single person. If not, determine if you are eligible for a <a href="#">partial exclusion</a> .
B) Complete this section only if you have determined that you aren't eligible for the maximum exclusion but are eligible for a partial exclusion. If you are eligible for a partial exclusion, use this section to determine your exclusion limit.			
Step 1	Determine the shortest of the following 3 periods: 1. Your time of residence in the home during the 5-year period leading up to the sale ..... 2. Your time of ownership of the home leading up to the sale ..... 3. The time that has elapsed between the sale and the date you last sold a home for which you took the exclusion, if applicable .....		
Step 2	Take the smallest period from Step 1 (you may use days or months) and divide that number by 730 (if using days) or 24 (if using months) .....		
Step 3	Multiply the result from Step 2 by \$250,000. This is the amount of your reduced exclusion. For married filing jointly, continue to step 4. ....		
Step 4	Repeat Steps 1–3 for your spouse and add the two results .....		
C) Your exclusion limit is \$..... Only gain in excess of this amount is taxable, unless you have gain from full or partial business or rental use. For partial use as a business or rental, see <a href="#">Property Used Partly for Business or Rental</a> . For use of the entire property for business, rental, vacation, or any other use (other than personal use as a main home), see <a href="#">Business or Rental Use of Home</a> .			

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# Figuring Gain or Loss

To figure the gain or loss on the sale of your main home, you must know the selling price, the amount realized, and the adjusted basis. Subtract the adjusted basis from the amount realized to get your gain or loss.

Selling price

– Selling expenses

---

**Amount realized**

– Adjusted basis

---

**Gain or loss**

A positive number indicates a gain; a negative number indicates a loss.

Certain events during your ownership, such as use of your home for business purposes or your making improvements to it,

can affect your gain or loss. They are explained in this section.

See Worksheet 2, later, for steps you should follow to figure your gain or loss.

## **Basis Adjustments—Details and Exceptions**

You should include many, but not all, costs associated with the purchase and maintenance of your home in the basis of your home. For more information on determining basis, see Pub. 551, Basis of Assets.

### **Fees and Closing Costs**

Some settlement fees and closing costs you can include in your basis are:

- Abstract fees (abstract of title fees),
- Charges for installing utility services,



- Legal fees (including fees for the title search and preparing the sales contract and deed),
- Recording fees,
- Survey fees,
- Transfer or stamp taxes, and
- Owner's title insurance.

Settlement costs don't include amounts placed in escrow for the future payment of items such as taxes and insurance.

Some settlement fees and closing costs you can't include in your basis are:

- Fire and casualty insurance premiums,
- Rent for occupancy of the house before closing,
- Charges for utilities or other services related to occupancy of the house before closing,

- Any fee or cost that you deducted as a moving expense (allowed for certain fees and costs before 1994),
- Charges connected with getting a mortgage loan, such as:
  1. Mortgage insurance premiums (including funding fees connected with loans guaranteed by the Department of Veterans Affairs),
  2. Loan assumption fees,
  3. Cost of a credit report,
  4. Fee for an appraisal required by a lender,
  5. Points (discount points, loan origination fees), and
- Fees for refinancing a mortgage.

**Construction.** If you contracted to have your house built on the land you own, your basis is:

- The cost of the land, plus
- The amount it cost you to complete the house, including:
  1. The cost of labor and materials,
  2. Any amounts paid to a contractor,
  3. Any architect's fees,
  4. Building permit charges,
  5. Utility meter and connection charges, and
  6. Legal fees directly connected with building the house.

Your cost includes your down payment and any debt such as a first or second mortgage or notes you gave the seller or builder.

It also includes certain settlement or closing costs. In addition, you must generally reduce your basis by points the seller paid you.

If you built all or part of your house yourself, its basis is the total amount it cost you to complete it. Don't include in the cost of the house:

- The value of your own labor, or
- The value of any other labor for which you didn't pay.

**Costs owed by the seller that you paid.**

You can include in your basis any amounts the seller owes that you agree to pay (as long as the seller doesn't reimburse you), such as:

- Any real estate taxes owed up through the day before the sale date,
- Back interest owed by the seller,
- The seller's title recording or mortgage fees,

- Charges for improvements or repairs that are the seller's responsibility (for example, lead paint removal),

and

- Sales commissions (for example, payment to the seller's real estate agent).

## **Improvements**

Improvements add to the value of your home, prolong its useful life, or adapt it to new uses. You add the cost of additions and improvements to the basis of your property.

The following chart lists some examples of improvements.

### **Repairs done as part of larger project.**

You can include repair-type work if it is done as part of an extensive remodeling or restoration job.

For example, replacing broken windowpanes is a repair, but replacing the same window as part of a project of replacing all the windows in your home counts as an improvement.

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# Examples of Improvements That Increase Basis

*Keep for Your Records*



<div><b>Additions</b> Bedroom Bathroom Deck Garage Porch Patio</div> <div><b>Lawn &amp; Grounds</b> Landscaping Driveway Walkway Fence Retaining wall Swimming pool</div> <div><b>Exterior</b> Storm windows/doors New roof New siding Satellite dish</div> <div><b>Insulation</b> Attic Walls Floors Pipes and duct work</div>	<div><b>Systems</b> Heating system Central air conditioning Furnace Duct work Central humidifier Central vacuum Air/water filtration systems Wiring Security system Lawn sprinkler system</div> <div><b>Plumbing</b> Septic system Water heater Soft water system Filtration system</div> <div><b>Interior</b> Built-in appliances Kitchen modernization Flooring Wall-to-wall carpeting Fireplace</div>
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**Examples of improvements you CAN'T include in your basis.** You can't include:

- Any costs of repairs or maintenance that are necessary to keep your home in good condition but don't add to its value or prolong its life. Examples include painting (interior or exterior), fixing leaks, filling holes or cracks, or replacing broken hardware.
- Any costs of any improvements that are no longer part of your home (for example, wall-to-wall carpeting that you installed but later replaced).
- Any costs of any improvements with a life expectancy, when installed, of less than 1 year.

***Exception.*** The entire job is considered an improvement if items that would otherwise be considered repairs are done as part of an extensive remodeling or restoration of your home.

For example, if you have a casualty and your home is damaged, increase your basis by the amount you spend on repairs that restore the property to its pre-casualty condition.

However, you must adjust your basis by any amount of insurance reimbursement you receive or expect to receive for casualty losses. See Worksheet 2, line 5.

**Energy credits and subsidies.** If you included in your basis the cost of any energy-related improvements (such as a solar energy system), and you received any tax credits or subsidies related to those improvements, you must subtract those credits or subsidies from your total basis. Examples include:

- *1977–1987:* Credit for home energy improvements,
- *1992–present:* Direct or indirect subsidy from a public utility for installations or modifications aimed at lowering a home's electricity or natural gas usage or better managing its energy demand,

- *2006–present*: Credit for home energy efficiency improvements,
- *2006–present*: Credit for qualified solar electric property expenditures, qualified solar water heating property expenditures, and qualified battery storage property expenditures,
- *2006–2007, 2009–present*: Credit for energy improvements to non-business properties (windows, skylights, exterior doors, heat pump, waterheater, biomass stoves, and boilers), and
- *2023–2032*: Credit for home energy audits, involving an inspection and written report for a main home located in the United States (within the meaning of section 121), as conducted and prepared by a certified home energy auditor.

## **Home Acquired Through a Trade**

**Traded for another home.** When you trade your home for a new one, you are treated as having sold your home and purchased a new one. Your sale price is the trade-in value you received for your home plus any mortgage or other debt that the person taking your home as a trade-in assumed (took over) from you as part of the deal.

**Traded for other property.** If you paid for your home by trading other property for it, the starting basis of your home is usually the fair market value of the property you traded.

## **Home Foreclosed, Repossessed, or Abandoned**

If your home was foreclosed on, repossessed, or abandoned, you may have ordinary income, gain, or loss. See Pub. 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonments.

If you used part of your home for business or rental purposes, see *Foreclosures and Repossessions* in chapter 1 of Pub. 544, for examples of how to figure gain or loss.

## **Home Destroyed or Condemned**

You have a disposition when your home is destroyed or condemned and you receive other property or money in payment, such as insurance or a condemnation award. This is treated as a sale and you may be able to exclude all or part of any gain that you have. If your home was destroyed, see Pub. 547. If your home was condemned, see Pub. 544.

## **Home Received in Divorce**

**Home acquired after July 18, 1984.** If your former spouse was the sole owner, your starting basis is the same as your former spouse's adjusted basis just before you received the home.

If you co-owned the home with your spouse, add the adjusted basis of your spouse's half-share in the home to the adjusted basis of your own half-share to get your starting basis. (In most cases, the adjusted basis of the two half-shares will be the same.) The rules apply whether or not you received anything in exchange for the home.

**Home acquired on or before July 18, 1984.** Your starting basis will usually be the home's fair market value at the time you acquired it from your spouse or ex-spouse.

For more information, see Pub. 504, Divorced or Separated Individuals. If you or your spouse or ex-spouse lived in a community property state, see Pub. 555, Community Property.

Table 1. **Exceptions to Using a Donor's Adjusted Basis for a Home Received as a Gift**

IF...	AND...	THEN...
at the time of the gift, the donor's adjusted basis in the home was <i>more</i> than the home's fair market value,	your usage of the donor's adjusted basis as your basis results in a loss,	you must use the fair market value of the home at the time of the gift as your basis (if using the fair market value results in a gain for you, then you don't need to recognize that gain).
at the time of the gift, the donor's adjusted basis in the home was <i>less</i> than the home's fair market value,	the donor paid gift tax on the gift of the home,	you figure your basis by starting with the donor's adjusted basis at the time of the gift and adding the federal gift tax paid due to the increase in value of the home (see Regulations section 1.1015-5 for further details on this calculation).

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## **Home Received as a Gift**

If you received your home as a gift, you should keep records of the date you received it. Record the adjusted basis of the donor at the time of the gift and the fair market value of the home at the time of the gift. Also ask if the donor paid any gift tax. As a general rule, you will use the donor's adjusted basis at the time of the gift as your basis. However, see Table 1 below to determine if any exceptions to this rule listed in the "IF" column apply.

## **Home Inherited**

**Home acquired from a decedent who died before or after 2010.** If you inherited your home from a decedent who died before or after 2010, your basis is the fair market value of the property on the date of the decedent's death (or the later alternate valuation date chosen by the personal representative of the estate).

If a federal estate tax return (Form 706) was filed or required to be filed, the value of the property listed on the estate tax return is your basis.

If Form 706 didn't have to be filed, your basis in the home is the same as its appraised value at the date of death, for purposes of state inheritance or transmission taxes. See section 1014 for details.

***Surviving spouse.*** If you are a surviving spouse and you owned your home jointly, your basis in the home will change. The new basis for the interest your spouse owned will be its fair market value on the date of death (or alternate valuation date). The basis in your interest will remain the same.

Your new basis in the home is the total of these two amounts.

If you and your spouse owned the home either as tenants by the entirety or as joint tenants with right of survivorship,

you will each be considered to have owned one-half of the home.

**Example.** Your jointly owned home (owned as joint tenants with right of survivorship) had an adjusted basis of \$50,000 on the date of your spouse's death, and the fair market value on that date was \$100,000. Your new basis in the home is \$75,000 (\$25,000 for one-half of the adjusted basis plus \$50,000 for one-half of the fair market value).

**Community property.** In community property states (Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin), each spouse is usually considered to own half of the community property. When either spouse dies, the total fair market value of the community property becomes the basis of the entire property, including the part belonging to the surviving spouse.

For this rule to apply, at least half the value of the community property interest must be includible in the decedent's gross estate, whether or not the estate must file a return.

For more information about community property, see Pub. 555, Community Property.



*If you are selling a home in which you acquired an interest from a decedent who died in 2010, see Pub. 4895, Tax Treatment of Property Acquired From a Decedent Dying in 2010, available at [IRS.gov/pub/irs-prior/p4895--2011.pdf](https://www.irs.gov/pub/irs-prior/p4895--2011.pdf), to determine your basis.*

## **Property Used Partly for Business or Rental**

**Calculation.** If you use property partly as a home and partly for business or to produce rental income, the treatment of any gain on the sale depends partly on whether the business or rental part of the property is part

of your home or separate from it. If you fail to meet the ownership and use tests, or if you used a separate portion of your home for business or rental purposes during your ownership, this may affect your gain or loss calculations. If a portion of the property was used for residential purposes and another portion of the property, separate from the dwelling unit, was used for nonresidential purposes, then only the gain allocable to the residential portion is excludable under Section 121. The Section 121 exclusion is reduced to the extent of any depreciation adjustments in connection with the rental or business use of your residence. For details and an example, see *Recapturing Depreciation*, later.

Treatment of any gain also depends on the use during the 5 years leading up to the sale. To figure the portion of the gain allocated to the period of nonresidential use, see *Business or rental usage calculations*, later. See also *Worksheet 2*.

**Space within the living area.** If the part of your property used for business or to produce rental income is within your home, such as a room used as a home office for a business, you do not need to allocate gain on the sale of the property between the business part of the property and the part used as a home. In addition, you do not need to report the sale of the business or rental part on Form 4797.

This is true whether or not you were entitled to claim any depreciation. However, you can't exclude the part of any gain equal to any depreciation allowed or allowable after May 6, 1997, which must be recaptured and reported as ordinary income under section 1250(b)(3). Other examples of space within the living area include a rented spare bedroom and attic space used as a home office.

***Example of nonresidential use within a dwelling unit.*** Logan, an attorney, buys a house in 2013. The house is a single dwelling unit but Logan uses a portion of the house

exclusively as a law office on a regular basis. Logan claimed depreciation deductions of \$2,000 during the period that the house is owned. Logan sells the house in 2016, realizing a gain of \$13,000. Logan has no other section 1231 or capital gains or losses for 2016. Logan must recognize \$2,000 of the gain as unrecaptured section 1250 gain. Logan completes Form 4797 to report the amount of ordinary income recapture. Logan may exclude the remaining \$11,000 of the gain from the sale of the house because Logan is not required to allocate gain to the business use within the dwelling unit. See Regulations section 1.121-1(e). See also *Determine any depreciation amounts you may need to recapture* for guidance on reporting depreciation previously deducted.

**Space separate from the living area.** You generally can't exclude gain on the separate portion of your property used for business or to produce rental income.

Regulations section 1.121-1(e) provides that the use of a separate portion of your home for business or rental purposes doesn't qualify for exclusion under section 121, and this may affect your gain or loss calculations.

See Regulations section 1.121-1(e).

Examples are:

- A working farm on which your house was located,
- A duplex in which you lived in one unit and rented the other, or
- A store building with an upstairs apartment in which you lived.

You can't exclude gain on the separate part of your property used for business or to produce rental income unless you owned and lived in that part of your property for at least 2 years during the 5-year period ending on the date of the sale. If you don't meet the use test for the separate business or rental part of the property, an allocation of the gain on the sale



is required. For this purpose, you must allocate the basis of the property and the amount realized between the residential and nonresidential portions of the property using the same method of allocation that you used to determine depreciation adjustments. See the Example for allocating residential and nonresidential portions of the property.

Report the sale of the business or rental part on Form 4797. For more information about using any part of your home for business or as a rental property, see Pub. 587, Business Use of Your Home, and Pub. 527, Residential Rental Property.

**Space formerly used as business or rental.** Note that space formerly used as business or rental will qualify for exclusion under section 121 if the space was converted to the taxpayer's principal residence for a total of 2 years or more, as long as the use as the principal residence was within the 5 years leading up to the sale.

See Regulations section 1.121-1(a). However, depreciation deductions claimed during the previous business use must be reported on line 5a of Worksheet 2 and recognized as unrecaptured section 1250 gain. No separate Business worksheet is needed because there are no current business expenses. See Regulations section 1.121-1(d). See also the Instructions for Form 4797, and the Instructions for Schedule D (Form 1040).

**Business or rental usage calculations.** If you use property partly as a home and partly for business or to produce rental income, and the business or rental portion isn't within the home's living area, you need to make separate gain/loss calculations for the business and residence portions of your property. Make three copies of all pages of Worksheet 2.

Label one copy "Total," one copy "Home," and one copy "Business or Rental."

Complete your "Total" worksheet using the figures for your property as a whole. Include the total amount you received, all of your basis adjustments, etc. Include the cost of all improvements, whether you made them to the business space or the residential space.

Determine your "business or rental percentage," meaning the percentage of your property that you used for business or rental. Section 121 requires you to recognize depreciation claimed on a home after May 6, 1997. If you were entitled to take depreciation deductions because you used a portion of your home for business purposes or as rental property, you can't exclude the part of your gain equal to any depreciation allowed or allowable as a deduction for periods after May 6, 1997.

If you used part of your home for business or rental after May 6, 1997, you may need to pay back (“recapture”) some or all of the depreciation you were entitled to take on your property. “Recapturing” depreciation means you must include it as ordinary income on your tax return. If you took depreciation on your home on past tax returns, use the same business or rental percentage that you used in determining how much depreciation to take. If you didn’t take depreciation on your home on past tax returns, compare the size of your business or rental space to the size of the whole property and express this as a percentage. For example, if you have a building with three equal-sized stories, and you live in the top two stories and use the ground floor for a store, then you are using  $\frac{1}{3}$  of the property and your business percentage is 33.3%.

For each number on your “Total” worksheet, figure the business-related portion of that number and enter it on your “Business or Rental” worksheet. You may use different methods to determine the business portion of different numbers. Here are the three possible methods and the circumstances under which each method applies.

- **Dollar-amount method.** Where a figure consists of specific dollar amounts that relate to either the residence portion or the business portion of the property, the figure must be broken down by these dollar amounts. For example, if the figure for improvements to the property was \$100,000, and all of that applied to the residence portion, then the business portion of the improvements would be zero.

- **“100% rule” for depreciation.** The first item under line 5a in Worksheet 2 is a business depreciation item. Any figure for this item is 100% a business figure.
- **Percentage method.** Where a figure applies to the property as a whole (such as the sale price), the business or rental portion is the figure multiplied by the business portion percentage you calculated earlier. Use the percentage method for all items that don’t require the dollar-amount or depreciation methods.

The total you get on line 7 on your “Business” copy of Worksheet 2 is the gain or loss related to the business or rental portion of the property you sold.