

Note: Do not include expenses you are deducting as moving expenses on Form 3903.

Name(s) as shown on Form 1040	Your social security number
-------------------------------	-----------------------------

	Yes	No
1 (a) Date former residence sold ▶		
(b) Have you ever postponed any gain on the sale or exchange of a principal residence?		
(c) Have you ever claimed a credit for purchase or construction of a new principal residence? (If "Yes," see Form 5405.)		
(d) If you were on active duty in the U.S. Armed Forces or outside of the U.S. after the date of sale of former residence, enter dates. From _____ to _____		
2 (a) Date new residence was bought ▶		
(b) If new residence was constructed by you, date construction began ▶		
(c) Date you occupied new residence ▶		
(d) If you answered "Yes," to 1(c), did anyone live in your new replacement residence before you did?		
(e) Were both the old and new properties used as your principal residence?		
(f) Were any rooms in either residence rented out or used for business at any time? (If "Yes," see note in line 7 and attach computation.)		

Part I Computation of Gain and Adjusted Sales Price

3 Selling price of residence. (Do not include selling price of personal property items.)	3		
4 Commissions and other expenses of sale	4		
5 Amount realized (subtract line 4 from line 3)	5		
6 Basis of residence sold	6		
7 Gain on sale (subtract line 6 from line 5). (If line 6 is more than line 5, enter zero and do not complete the rest of form.) If you bought another principal residence during the allowed replacement period or you elect the one time exclusion in Part III, continue with this form. Otherwise, enter the gain on Schedule D (Form 1040), line 2 or 9. If you intend to replace the residence within the allowed replacement period see instruction B.	7		
Note: Do not include in line 7 the amount attributable to rented rooms or other business purposes; instead, report separately on Form 4797.			
8 Fixing-up expenses	8		
9 Adjusted sales price (subtract line 8 from line 5)	9		

Part II Computation of Gain to be Postponed and Adjusted Basis of New Residence

10 Cost of new residence	10		
11 Gain taxable this year. (Subtract line 10 from line 9. Do not enter more than line 7.) If line 10 is more than line 9, enter zero. Enter any taxable gain on Schedule D (Form 1040), line 2 or 9. If you were 55 or over on the date of sale, see Part III	11		
12 Gain to be postponed (subtract line 11 from line 7)	12		
13 Adjusted basis of new residence (subtract line 12 from line 10)	13		

Part III Computation of Exclusion, Gain to be Reported, and Adjusted Basis of New Residence

	Yes	No
14 (a) Were you 55 or over on date of sale?		
(b) Was your spouse 55 or over on date of sale? (If you answered "No" to 14(a) and 14(b), do not complete the rest of form.)		
(c) If you answered "Yes" to 14(a) or 14(b) did you own and use the property sold as your principal residence for a total of at least 3 years (except for short temporary absences) of the 5-year period before the sale? (If you are 65 or over, see instruction C.)		
(d) If you answered "Yes" to 14(c), do you elect to take the once in a lifetime exclusion of the gain on the sale? (If "Yes," check yes box and complete the balance of Part III. If "No," return to Part II, line 12 above.)		
(e) At time of sale, was the residence owned by: <input type="checkbox"/> you, <input type="checkbox"/> your spouse, <input type="checkbox"/> both of you?		
(f) Social security number of spouse, at time of sale, if different from number on Form 1040 ▶ (Enter "none" if you were not married at time of sale.)		

15 Exclusion: Enter the smaller of line 7 or \$100,000 (\$50,000, if married filing separately)	15		
16 Part of gain included (subtract line 15 from line 7)	16		
17 Cost of new residence. If you did not buy a new principal residence, enter "None." Then enter the gain from line 16 on Schedule D (Form 1040), line 9, and do not complete the rest of Form 2119	17		
18 Gain taxable this year. (Subtract the sum of lines 15 and 17 from line 9. The result cannot be more than line 16.) If line 17 plus line 15 is more than line 9, enter zero. Enter any taxable gain on Schedule D (Form 1040), line 9	18		
19 Gain to be postponed (subtract line 18 from line 16)	19		
20 Adjusted basis of new residence (subtract line 19 from line 17)	20		

Instructions

General Instructions

A. Purpose of Form.—Use this form to report any gain on the sale of your principal residence whether or not you replace it with a new principal residence. A taxable gain must be reported on Schedule D (Form 1040). A loss is not deductible.

B. Postponement of Gain on Sale of Principal Residence.—Unless you elect to exclude it according to Instruction C, gain from the sale of your principal residence may have to be postponed if:

- (1) within 18 months before or after the sale, you buy and occupy another principal residence; or
- (2) before the sale or within 18 months after the sale, you begin construction of a new principal residence and occupy it within 18 months before and 2 years after the sale.

Use Parts I and II to figure the gain that must be postponed.

Note: If you are on active duty in the U.S. Armed Forces for more than 90 days or living and working outside the United States, after the date of sale of your old residence, that time is not counted in figuring your replacement period. However, this replacement period is never permitted to extend beyond 4 years after the date of sale.

Any gain postponed in the year you sell your old residence is subtracted from the cost of your new residence, giving you a lower cost basis in your new residence. If you sell the new residence in a later year and do not replace it, the postponed gain will be taxed in that year. However, see instruction C. If you do replace it, you may continue to postpone the gain.

Principal Residence.—Postponing gain applies only to the sale of your principal residence. Usually, the home in which you live is your principal residence. For example, this may be a house, houseboat, house trailer, cooperative apartment, or condominium.

If you have more than one residence, your principal residence is the one you physically occupy most of the time. If you change your principal residence more than once during the replacement period, only the last residence bought qualifies as your new residence for the purpose of postponing gain, unless you sold the residence because of a job relocation and are allowed a moving expense deduction.

If you plan to replace your residence but have not done so by the time you file your return, and the replacement period has not expired, attach Form 2119 to Form 1040 for the year of sale, but complete lines 1(a), 2(a), and 3 through 7 only. Indicate in question 2(a) of the form that you have not yet bought a replacement residence.

If you replace your residence after your return is filed but within the replacement period, and it costs you at least as much as the adjusted sales price of your old residence, you should notify in writing the Director of the Internal Revenue Service Center where you filed your return and attach another Form 2119.

If your new residence costs less than the adjusted sales price of your old residence, or if you do not buy or start construction of your new residence within 18 months from the date of sale of your old residence, you must file Form 1040X with attached Schedule D and a new Form 2119 for the year of sale showing the amount of the gain you are required to report. Interest will be charged on the additional tax due on this gain.

If you paid tax on the gain from the sale of your old residence, and buy and occupy a new residence within the replacement period, you should file Form 1040X with attached Form 2119 if you are entitled to a refund.

C. Exclusion of Gain on Sale of Residence.—If you sold your principal residence, you may elect to exclude from your income part or all of the gain on the sale if:

- (1) you were 55 or over on the date of the sale;
- (2) you owned and occupied your residence for periods totaling at least 3 years within the 5 year period ending on the date of sale; and
- (3) neither you nor your spouse has previously elected this exclusion after July 26, 1978.

If you meet these requirements, you may elect to exclude up to \$100,000 of your gain on the sale. If you are married filing separately, however, you may elect to exclude up to only \$50,000 of gain on each separate return. Make the election in Part III of Form 2119. If you are 65 or over on the date of sale, you may substitute 5 of the last 8 years for 3 of the last 5 years.

The amount of gain excluded from your income is never taxed. The balance of the gain, in excess of the amount excluded, is taxed in the year of sale, unless you buy a new residence during the replacement period.

Generally, you may make or revoke an election to exclude gain on the sale of your principal residence at any time within 3 years from the due date, including extensions, of the return for the year the residence was sold. Use Form 1040X to amend your return.

If you and your spouse jointly hold the property and you file a joint return, only one of you must meet the age, ownership, and use requirements.

If the property is not jointly owned, only the spouse who owns the property must meet the requirements regardless of filing status on Form 1040.

If you are married at the time of sale, both you and your spouse must make the election to exclude the gain. If you do not file a joint return with that spouse, he or she must indicate consent to the election by writing in the bottom margin of Form 2119 or on an attached statement, "I consent to Part III election," and signing.

The election does not apply separately to you and your spouse. If you and your spouse make an election during marriage and later divorce, no further elections are available to either of you or to your new spouse if you remarry.

D. Consent of You and Your Spouse to Apply Separate Gain on Sale of Old Residence to Basis of New Residence.—Sometimes one spouse may own the old residence separately, but both spouses may own the new residence jointly (or vice versa). In such cases, the gain from the sale of the old residence on which tax is postponed and the resulting adjustment to the basis of the new residence may be divided between them. You and your spouse may make such a division only if:

- (1) Both of you use the old and the new residences as your principal residence; and

- (2) Both of you indicate consent in the bottom margin of Form 2119 or on an attached statement by writing: "We consent to have the basis of the new residence reduced by the gain on sale of the old residence." Both of you must sign this consent.

If both of you do not consent, you must determine the recognition of gain from the sale of the old residence in the regular way with no division.

Line-By-Line Instructions

Line 3. Selling Price of Residence.—Enter the amount of money you received, the amount of all notes, mortgages, or other liabilities to which the property was subject, and the fair market value of any other property you received.

Line 4. Commissions and Other Expenses of Sale.—This includes sales commissions, advertising expenses, attorney and legal fees, etc., incurred in order to sell the old residence. Loan charges, such as "loan placement fees" or "points" charged the seller, generally are selling expenses.

Line 6. Basis of Residence Sold.—This includes the original cost of the property, commissions, and other expenses incurred in its purchase, plus the cost of improvements. Subtract any depreciation allowed or allowable, any casualty loss taken on the residence, any energy credit taken, and the postponed gain on the sale or exchange of a previous principal residence. For more information, see Publication 551, Basis of Assets.

Line 8. Fixing-up Expenses.—These are decorating and repair expenses incurred only to assist the sale of the old property. They must have been incurred for work performed within 90 days before the contract to sell was signed, and must have been paid for not later than 30 days after the sale. Do not include capital expenditures for permanent improvements or replacements which are added to the basis of the property sold.

Note: Fixing-up expenses are considered only in figuring adjusted sales price to determine the gain on which tax is postponed. They are not deductible in determining the actual profit on the sale of your old residence.

Lines 10 and 17. Cost of New Residence.—The cost of your new residence includes one or more of the following:

- (a) cash payments;
- (b) the amount of any mortgage or other debt on the new residence;
- (c) commissions and other purchase expenses you paid;
- (d) construction costs (when you build your own residence) for the period beginning 18 months before and ending 2 years after the sale of the old residence; and
- (e) if you buy rather than build your new residence, all capital expenditures made within 18 months before and 18 months after the sale of the old residence.

For more information, please get Publication 523, Tax Information on Selling Your Home, from most IRS offices.