



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

August 31, 2005

OFFICE OF
CHIEF COUNSEL

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CC:ITA:B04:
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Dear _____ :

I am responding to your letter dated April 25, 2005, requesting information about the tax treatment of transfer tax and commission expenses associated with the sale of your home. I hope that the following general information is helpful.

Under § 121 of the Internal Revenue Code, gain from the sale of your main home is not included in your gross income if certain requirements are met. The maximum gain excluded from income on a sale is \$500,000 for married individuals filing a joint return.

In order to determine the gain on the sale of your home, you must first determine the amount realized from the sale. The amount realized on the sale is the selling price of the home less any related selling expenses. The gain equals the amount realized on the sale of your home minus your basis in the home.

The commission and transfer taxes associated with the sale of your home are examples of selling expenses. The transfer tax associated with the purchase of your new home is added to your basis in the new home. Accordingly, neither the commission nor the transfer taxes are deductible on your tax return. I have enclosed a copy of Publication 523, *Selling Your Home*. You can find information about your questions on pages 4, 5, 6, and 27 of Publication 523.

If you have any additional questions, please contact _____, Identification
Number _____ or me at _____.

Sincerely,

Michael J. Montemurro
Branch Chief
Office of Associate Chief Counsel
(Income Tax & Accounting)

Enclosure