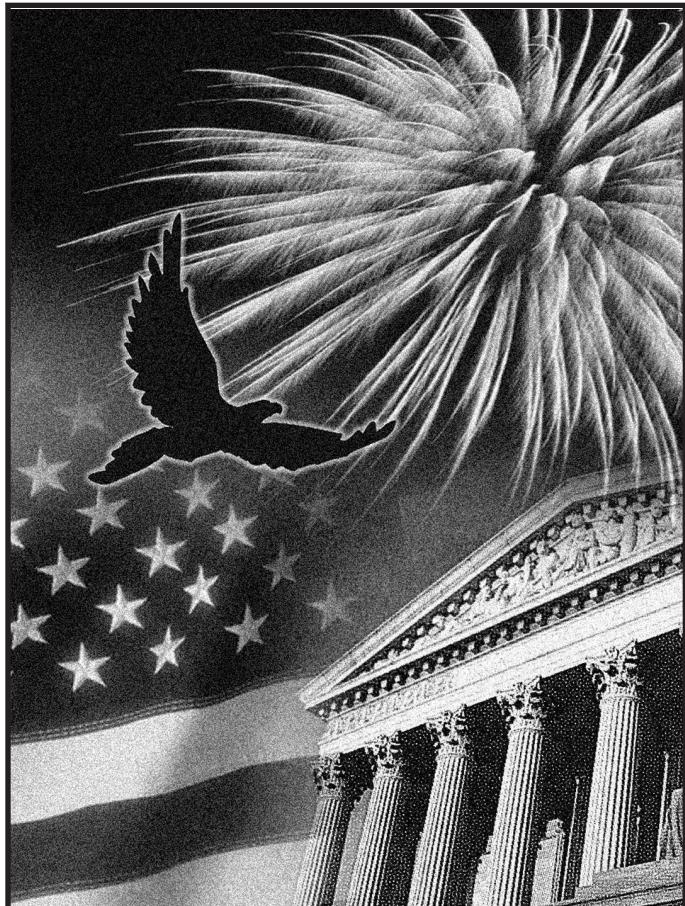




## Publication 523

# Selling Your Home

For use in preparing  
**2025** Returns



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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](#).

## What's New

**Credit for energy efficient home improvements requires an identification number.** Beginning January 1, 2025, if you are claiming the energy efficient home improvement credit for specified property placed into service in 2025, you must include the four-character alphanumeric unique qualified manufacturer identification number (QMID) for each item. Home energy tax credits are detailed in [Energy credits and subsidies](#).

**Termination of certain energy credits after 2025.** P.L. 119-21, commonly known as the One Big Beautiful Bill Act (OBBA), sections 70505 and 70506, modifies several energy credits and deductions. The energy efficient home improvement and residential clean energy credit are both set to expire after 2025. Both credits are allowed for qualifying property with installation completed before 2026. For construction or reconstruction of a structure, if your original use of the structure begins after 2025, you can't claim the residential clean energy credit.

**Opportunity zones.** P.L. 119-21, commonly known as the OBBA, section 70421, revises certain Opportunity Zone rules in Internal Revenue Code sections 1400Z-1 and 1400Z-2.

## Reminders

**Special rules for capital gains invested in Qualified Opportunity Funds.** Effective December 22, 2017, section 1400Z-2 introduced 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.

**Potential depreciation recapture for additional depreciation deductions.** The recapture rules of section 1250 tax certain gains from the sale or other disposition of real property as ordinary income and not capital gain to the extent the gain is due to depreciation previously claimed in excess of straight-line for section 1250 realty held more

than a year. Form 4797 is used to report the recapture amount. See Pub. 544.

**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 1-800-THE-LOST (1-800-843-5678) 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](#),
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](#). 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](#) where you can find topics by using the search feature or viewing the categories listed.

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**Don't** resubmit requests you've already sent us. You can get forms and publications faster online.

## 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
- 5695** Residential Energy Credits
- 6252** Installment Sale Income
- 8822** Change of Address
- 8824** Like-Kind Exchanges
- 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](#), explained 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 (section 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 used 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](#).
- You were a service member during the ownership of the home. See [Service, Intelligence, and Peace Corps personnel](#).
- The sale involved vacant land. See [Vacant land next to home](#).
- Your previous home was destroyed or condemned. See [Home destroyed or condemned—considerations for benefits](#).
- You owned a remainder interest, meaning the right to own a home in the future, and you sold that right. See [Remainder interest](#).
- 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 instrument and uses the home as his or her main home.

For property owned by a spouse or former spouse, the term "divorce or separation instrument" means:

- (a). A decree of divorce or separate maintenance or a written instrument incident to such a decree;
- (b). A written separation agreement; or
- (c). A decree not described in (a) that requires a spouse to make payments for the support or maintenance of the other spouse.

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 instrument, 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.
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 2016. You lived in it as your main home for 3½ 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 2025. 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 3½ 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 Revenue Procedure 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 non-qualified 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 Revenue Procedure 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).

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 Revenue Procedure 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. See Form 8824 and its instructions for more details. For additional information, see [Property Used Partly for Business or Rental](#) and [Business or Rental Use of Home](#), later.

## 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; and
  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); and
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; and
- The home became significantly less suitable as a main home for you and your family for a specific reason.

## 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  | <ol style="list-style-type: none"> <li>1. You sell your home within 2 years of the death of your spouse.</li> <li>2. You haven't remarried at the time of the sale.</li> <li>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.</li> <li>4. You meet the 2-year ownership and residence requirements (including your late spouse's times of ownership and residence, if applicable).</li> </ol> | \$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>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.</b>   |  |                   |  |
| 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 .....   |                   |  |
| <b>C) Your exclusion limit is \$_____.</b> 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> . |  |                   |  |

## 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.

$$\begin{aligned}
 &\text{Selling price} \\
 &- \text{Selling expenses} \\
 &= \text{Amount realized} \\
 &- \text{Adjusted basis} \\
 &= \text{Gain or loss}
 \end{aligned}$$

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.

## Examples of Improvements That Increase Basis

| Additions           | Systems                      |
|---------------------|------------------------------|
| Bedroom             | Heating system               |
| Bathroom            | Central air conditioning     |
| Deck                | Furnace                      |
| Garage              | Duct work                    |
| Porch               | Central humidifier           |
| Patio               | Central vacuum               |
|                     | Air/water filtration systems |
|                     | Wiring                       |
|                     | Security system              |
|                     | Lawn sprinkler system        |
| Lawn & Grounds      |                              |
| Landscaping         |                              |
| Driveway            |                              |
| Walkway             |                              |
| Fence               |                              |
| Retaining wall      |                              |
| Swimming pool       |                              |
| Exterior            | Plumbing                     |
| Storm windows/doors | Septic system                |
| New roof            | Water heater                 |
| New siding          | Soft water system            |
| Satellite dish      | Filtration system            |
| Insulation          | Interior                     |
| Attic               | Built-in appliances          |
| Walls               | Kitchen modernization        |
| Floors              | Flooring                     |
| Pipes and duct work | Wall-to-wall carpeting       |
|                     | Fireplace                    |

**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.

**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;
- 2006–2025:** Credit for certain residential clean energy (previously the residential energy efficient property credit), for expenditures made for qualified energy property, such as qualified solar electric, solar water heating, fuel cell, small wind energy, and geothermal heat pump property; and battery storage technology;
- 2006–2007, 2009–2025:** Credit for qualified energy efficiency home improvements (previously the nonbusiness property credit), generally for expenditures or property placed in service for exterior windows, skylights, exterior doors, heat pumps, heat pump water heaters, biomass stoves, and biomass boilers. A product identification number is required in 2025; and
- 2023–2025:** Credit for home energy audits, involving an inspection and written report for a main home to identify cost-effective energy efficiency improvements. Beginning January 1, 2024, the audits must be conducted and prepared by (or under the supervision of) a certified home energy auditor.

See the Instructions for Form 5695 for detailed information on improvements and credit percentages in specific tax years.

## 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.

## 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.

**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). |

## 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 includable 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.

**Inherited property in 2010.** 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://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 portion of gain equal to any section 1250(b)(3) depreciation adjustments allowed or allowable after May 6, 1997, which must be recaptured and reported under section 1250. See Regulations section 1.121-1(d). See also [Recapturing Depreciation](#), later. 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 depreciation recapture, if any. 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). For information on unrecaptured section 1250 gain, see [Recapturing Depreciation](#), later.

**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 deductions you were entitled to take on your property. "Recapturing" depreciation means you must include it as ordinary income on your tax return. See Regulations section 1.1250-1 for limitations. 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 one-third 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.

Next, complete your "Home" worksheet. For each number, take the number from your "Total" worksheet, subtract the number from your "Business or Rental" worksheet, and enter the result in your "Home" worksheet (for example, subtract the number on line 1f of the "Business or Rental" worksheet from the number on line 1f of your "Total" worksheet), and enter the result on your "Home" worksheet.

Now figure the totals on your "Home" worksheet. The total you get on line 7 on the "Home" copy of [Worksheet 2](#) is the gain or loss related to the home portion of the property you sold.

Review the results of your "Home" and "Business" worksheets to determine your next step. When you have completed each worksheet, you will know whether you have a gain or loss on each part of your property. It is possible to have a gain on both parts, a loss on both parts, or a gain on one part and a loss on the other. 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.

**Example.** The following example demonstrates separate calculations for business and residential uses.

Stacey owns property that consists of a house, a stable, and 35 acres. Stacey uses the stable and 28 acres for nonresidential purposes for more than 3 years during the 5-year period preceding the sale. Stacey uses the entire house and the remaining 7 acres as a principal residence for at least 2 years during the 5-year period preceding the sale. For periods after May 6, 1997, Stacey claims depreciation deductions of \$9,000 for the nonresidential use of the stable. Stacey sells the entire property in 2014, realizing a gain of \$24,000. Stacey has no other section 1231 or capital gains or losses for 2014.

Because the stable and the 28 acres used in the business are separate from the dwelling unit, the allocation rules apply. Stacey must allocate the basis and amount realized between the portion of the property used as a principal residence and the portion used for nonresidential purposes based on their respective FMVs. Stacey creates three copies of Worksheet 2 and titles them "Business or Rental," "Home," and "Total" to allocate basis and the amount realized for the different uses of the property.

Stacey determines that \$14,000 of the gain is allocable to the nonresidential-use portion of the property by completing the copy of Worksheet 2 entitled "Business or Rental." Stacey determines that \$10,000 of the gain is allocable to the portion of the property used as a residence by completing the copy of Worksheet 2 entitled "Home." Stacey must recognize the \$14,000 of gain allocable to the nonresidential-use portion of the property (\$9,000 of which is unrecaptured section 1250 gain, and \$5,000 of which is adjusted net capital gain). Stacey reports gain associated with the nonresidential-use portion of the property on Form 4797. Stacey may have to complete Form

8949 and Schedule D (Form 1040). See *Sale of Home Used for Business*, in the Instructions for Form 4797. See also the Instructions for Form 8949, and the Instructions for Schedule D (Form 1040). For information on the treatment of unrecaptured section 1250 gain, see [\*Recapturing Depreciation\*](#), later.

Stacey transfers the gain from the “Home” worksheet to Worksheet 3, reviews the maximum amount available for exclusion as figured on Worksheet 1, and determines that

the \$10,000 gain from the residence portion is less than the maximum amount available for exclusion from Worksheet 1. The \$10,000 gain on the property may be excluded.

Complete [Worksheet 2](#). Then see [Table 2](#) to determine your next steps. [Worksheet 2](#) is used to figure the adjusted basis of your home and your gain or (loss). You will figure your taxable gain (if any) on [Worksheet 3](#), later.

## Worksheet 2. How To Figure Your Gain or Loss

DO NOT use this worksheet to determine your basis if you acquired an interest in your home from a decedent who died in 2010 and whose executor filed Form 8939. See [Home acquired from a decedent who died before or after 2010](#).

If you have questions as you work through these step-by-step instructions or want examples of costs that can and can't be included, see [Basis Adjustments—Details and Exceptions](#).

- If married filing jointly, figure gain or loss for both spouses together. If single or married filing separately, figure gain or loss as an individual.
- If the home you sold had multiple owners, your gain or loss is the gain or loss on the entire sale multiplied by your percentage of ownership.
- If you used any portion of the property for business or rental purposes, see [Property Used Partly for Business or Rental](#). See also [Business or Rental Use of Home](#).

### 1. Determine the sale price. This is everything you received for selling your home.

- a. All money (currency, check, wire transfer) .....
  - b. The fair market value of any other property or services you received, including digital assets .....
  - c. The value of any notes, mortgages, or other debts that the buyer agreed to assume (take over) as part of the sale .....
  - d. Any real estate taxes the buyer paid on your behalf .....
  - e. Any amount you received for granting an option to buy your home, if the option was exercised .....
  - f. Add lines 1a through 1e. This is your **sale price** .....
- If you received payment for personal property, DON'T include it in the sale price.
  - If you received payment or reimbursement from your employer because of a job transfer, DON'T include the payment as part of the selling price. Your employer will include it as wages in box 1 of your Form W-2.
  - If you received Form 1099-S, the gross proceeds for the sale price should appear in box 2. If box 4 is checked, the sale price included noncash payments, and you need to determine the value of these and add them to the figure in box 2.
  - If you didn't receive Form 1099-S, refer to your real estate transaction documents for the total amount you received for your home.

### 2. Determine your selling expenses. These are the costs directly associated with selling your home.

- a. Any sales commissions (for example, a real estate agent's sales commission) .....
- b. Any advertising fees .....
- c. Any legal fees .....
- d. Any mortgage points or other loan charges you paid that would normally have been the buyer's responsibility .....
- e. Any other fees or costs to sell your home .....
- f. Add lines 2a through 2e. These are your **selling expenses** .....

### 3. Figure your "amount realized" (sale price minus selling expenses).

Line 1f minus line 2f ..... **3.**

### 4. Determine your "total basis" (the total amount you invested in your home). This includes what you paid for your home as well as other money you may have spent that added to its value.

- a. The amount you paid for your home (or if you built your home, the cost of the land). Include any down payment and any amount you borrowed to pay for the home. For cooperative apartments, include the value of the corporation stock you purchased. If you acquired your home through inheritance, gift, bargain sale, trade, or anything except a fair market purchase, see [Basis Adjustments—Details and Exceptions](#) .....
- b. Any settlement fees or closing costs you paid when you bought your home, except for financing-related costs (such as seller-paid points). The settlement statement should list the fees related to buying the home. See [Basis Adjustments—Details and Exceptions](#) and [Fees and Closing Costs](#) .....
- c. Any real estate taxes or other costs you paid on behalf of the seller you bought your home from (and for which the seller never paid you back) .....
- d. Any amounts you spent on construction or other improvements that are still part of your home at the time of sale (not including costs of maintenance and repairs). See [Basis Adjustments—Details and Exceptions](#) .....
- e. Any amounts you spent to repair damage to your home or the land on which it sits .....
- f. Any special assessments for local improvements (such as special tax or condominium association assessments that aren't merely for repairs or maintenance) .....
- g. Add lines 4a through 4f. This is your **total basis** .....

## Worksheet 2. How To Figure Your Gain or Loss (continued)

### 5. Determine your “basis adjustments” (any payments, credits, or benefits you may need to deduct from your basis).

- a. Any depreciation you took or were allowed to take for the use of your home for business or rental purposes ..... a. \_\_\_\_\_
- b. Any casualty losses (such as flood or fire damage) you claimed as a deduction on a federal tax return ..... b. \_\_\_\_\_
- c. Any insurance payments you received or expect to receive for casualty losses ..... c. \_\_\_\_\_
- d. Any payments you received for granting an easement, conservation restriction, or right-of-way ..... d. \_\_\_\_\_
- e. Any energy credits or subsidies that effectively paid you back for improvements you included in your total basis, including home energy audits by a certified home energy auditor. See [Basis Adjustments—Details and Exceptions](#) ..... e. \_\_\_\_\_
- f. Any adoption credits you claimed or any nontaxable payments from an employer-sponsored adoption assistance program ..... f. \_\_\_\_\_
- g. Any real estate taxes the seller paid on your behalf (and for which you never paid the seller back). If you reimburse the seller, it doesn’t affect basis ..... g. \_\_\_\_\_
- h. Any mortgage points the seller paid for you when you bought your home, if one of the following is true ..... h. \_\_\_\_\_
- You bought your home between January 1, 1991, and April 3, 1994, AND you deducted the points as home mortgage interest in the year paid, or
  - You bought your home after April 3, 1994 (regardless of whether you deducted the points).
- i. Any canceled or forgiven mortgage debt amount on a qualified principal residence that was excluded before January 1, 2026 (or as part of an arrangement evidenced in writing before January 1, 2026) or due to a bankruptcy or insolvency and that you didn’t have to declare as income. (See Pub. 4681.) ..... i. \_\_\_\_\_
- j. Any sales tax you paid on your home (such as for a mobile home or houseboat) and then claimed as a deduction on a federal tax return ..... j. \_\_\_\_\_
- k. The value of any temporary housing the builder of your home provided for you ..... k. \_\_\_\_\_
- *Use this equation:* Contract price × Value of temporary housing ÷ (Value of temporary housing + Value of new home)
- l. Any gain you postponed from the sale of a previous home sold before May 7, 1997 ..... l. \_\_\_\_\_
- m. Add lines 5a through 5l. This is your **basis adjustment** ..... m. \_\_\_\_\_

### 6. Figure your “adjusted basis” (total basis minus basis adjustments).

- Line 4g minus line 5m ..... 6. \_\_\_\_\_
- If your **adjusted basis is less than zero** and you went through a mortgage workout or other process resulting in forgiveness or cancellation of mortgage debt (“discharge of qualified principal residence indebtedness”), don’t count any portion of your canceled debt that is bringing your basis below zero.

### 7. Figure your gain or loss (amount realized minus adjusted basis).

- Line 3 minus line 6 ..... 7. \_\_\_\_\_
- If the **number is negative** (adjusted basis is greater than amount realized), you sold your home at a loss. You can’t deduct this loss, but you don’t need to pay any tax on the money you received from selling your home. Skip to [Reporting Your Home Sale](#), later.
  - If the **number is positive**, you sold your home at a gain. Skip to [How Much Is Taxable](#), later, to see if [Worksheet 3](#) is required.

If this is your separate worksheet for business use, don’t follow guidance on line 7. Report the gain on Form 4797 because this gain is not excluded under section 121.

**Table 2. Does Your Home or Business Show a Gain or a Loss?**

| IF...                                   | THEN...  |
|---|--|
| your “Home” worksheet shows a loss,     | follow the instructions at the end of line 7, under <a href="#">Worksheet 2</a> for “If the number is negative.”   |
| your “Home” worksheet shows a gain,     | see <a href="#">How Much Is Taxable?</a> and <a href="#">Worksheet 3</a> to find out how much of the gain on your “Home” worksheet is taxable.   |
| your “Business” worksheet shows a loss, | DON’T follow the instructions at the end of line 7, under <a href="#">Worksheet 2</a> . Instead, report the loss from your “Business” worksheet on Form 4797, Sales of Business Property. <b>Note:</b> Your loss may be limited. See the Instructions for Form 4797. |
| your “Business” worksheet shows a gain, | you can’t exclude any of the gain shown on your “Business” worksheet. DON’T follow the instructions at the end of line 7, under <a href="#">Worksheet 2</a> . Instead, report the gain from your “Business” worksheet on Form 4797.                                  |

## Business or Rental Use of Home

**Nonqualified use of entire property after 2008.** If you fail to meet the requirements to qualify for the \$250,000 or \$500,000 exclusion, you may still qualify for a reduced exclusion. If you fail to meet the ownership and use tests, or if, after 2008, you (your spouse or former spouse) didn’t use your home as a principal residence, this type of usage may affect your gain or loss calculations.

Gain from the sale or exchange of your main home isn’t excludable from income if it is allocable to periods of non-qualified use. Nonqualified use means any period after 2008 when neither you nor your spouse (or former spouse) used the property as your main home, with certain exceptions.

**Exceptions.** A period of nonqualified use does not include:

1. Any portion of the 5-year period ending on the date of the sale or exchange after the last date you or your spouse (or former spouse) used the property as your main home;
2. Any period (not to exceed 10 years) during which you (or your spouse) are serving on qualified official extended duty:
  - a. As a member of the uniformed services;
  - b. As a member of the Foreign Service of the United States; or
  - c. As an employee of the intelligence community; and
3. Any other period of temporary absence (not to exceed an aggregate period of 2 years) due to change of employment, health conditions, or other unforeseen circumstances as may be specified by the IRS. See [Eligibility Step 5 Exceptions to the Eligibility Test](#), and [Does Your Home Sale Qualify for the Exclusion of Gain?](#), earlier.

Gain from depreciation for periods after May 6, 1997, isn’t taken into account to determine gain from nonqualified use. Such gain is not accounted for in determining the amount of gain allocated to nonqualified use. To figure the

portion of the gain allocated to the period of nonqualified use, see [Worksheet 3](#).

**Example.** Finley buys a property on January 1, 2020, for \$400,000 and uses the entire property as rental property for 2 years, claiming \$20,000 of depreciation deductions and reducing the property’s basis to \$380,000. On January 1, 2022, Finley converts the property to a principal residence. Finley moves out on January 1, 2024, and sells the property for \$700,000 on January 1, 2025. The total gain on the sale is \$320,000 (\$700,000 – (\$400,000 – \$20,000)). Finley completes Worksheet 2, and enters \$20,000 on line 5a so that line 7 reports \$320,000.

Finley transfers the \$320,000 net gain from line 7 of Worksheet 2 to Worksheet 3. Finley completes Section A of Worksheet 3 and takes the amount from line 7 of Worksheet 2, \$320,000, and subtracts \$20,000 for depreciation. Finley enters \$300,000 (\$320,000 - \$20,000 depreciation) in Step 3 (Section A). Moving to Section B of Worksheet 3, Finley has \$300,000 in net gain that is potentially excluded, except for the period of nonqualified use. The rental period occurred for 2 out of 5 years that Finley owned the property and met the use test by using the home as a principal residence for 2 years (January 1, 2022, to January 1, 2024). Note that the rental period occurred before Finley moved back into the home to fulfill the required 2-year personal use requirement.

In Section B of Worksheet 3, Finley allocates 40% (2/5, or 2 years out of 5) of the remaining \$300,000 gain, or \$120,000, to nonqualified use (\$300,000 - \$120,000 = \$180,000). The \$120,000 nonqualified use gain is ineligible for the section 121 exclusion and is reported as long-term capital gain on Schedule D (Form 1040). The \$180,000 of the remaining gain is excluded from gross income, as reported in Section C of Worksheet 3. The balance of the \$250,000 exclusion can’t be used. The \$20,000 attributable to the depreciation deduction is subject to recapture under section 1250. See [Determine any depreciation amounts you may need to recapture](#) to figure the amount to report as ordinary income on Form 4797. For information on reporting \$120,000 of nonqualified use gain (long-term capital gain), see the Instructions for Schedule D (Form 1040).

**Example.** Taylor buys a residence on January 1, 2020, for \$400,000 and immediately begins using it as a principal residence. Taylor moves out on January 1, 2023, and immediately begins to rent the home. On December 1, 2024, Taylor sells the property for \$600,000. Based on the facts presented, note that the rental period after Taylor's last qualified use is not considered nonqualified use because nonqualified use during the 5-year period ending on the date of the sale doesn't include the time between when Taylor last used the property as Taylor's principal residence and when Taylor sold the property. See section 121(b)(5)(C)(ii). Because Taylor met the ownership and use tests, Taylor can exclude gain up to \$250,000. Taylor had deducted \$27,000 for depreciation for the period of rental to a third party. Taylor can't exclude the part of the gain equal to the depreciation claimed after May 6, 1997, for renting the house (\$27,000). This is unrecaptured section 1250 gain.

After subtracting depreciation from net gain, Taylor's net gain reported in Worksheet 3, Section A, Step 3 is \$200,000, calculated as follows: Taylor had completed Worksheet 2 and reported \$600,000 on line 1, \$400,000 on line 4a, and \$27,000 on line 5a. Taylor computed figures on Worksheet 2 and reported \$227,000 on line 7 (\$600,000 - (\$400,000 - \$27,000)). Taylor transferred the result from line 7 to Worksheet 3. Taylor completed Section A to enter net gain and subtract the \$27,000 of depreciation deductions taken. Taylor entered \$200,000 in Step 3 of Section A. Taylor skipped Section B because there is no nonqualified use based on the exception under section 121(b)(5)(C)(ii). Taylor completed Section C for the column "you completed Section A but skipped Section B" and took the figure from Section A, Step 3 and entered \$200,000. The entire \$200,000 gain is excludable from gross income because any period after the last qualified use doesn't constitute nonqualified use.

After subtracting depreciation from net gain in Worksheet 2, line 7, if Taylor's net gain had exceeded the maximum exclusion amount for a single filer, any capital gain above the threshold (\$250,000) would have been reported on Schedule D (Form 1040) as long-term capital gain. However, Taylor must report the \$27,000 depreciation on Form 4797. See the Instructions for Form 4797. For information on the treatment of unrecaptured section 1250 gain, see [Recapturing Depreciation](#), later. See also Pub. 544 for information on depreciation recapture.

For more information about using any part of your home for business or as a rental property, including information about depreciation deductions, see Pub. 587, Business Use of Your Home, and Pub. 527, Residential Rental Property. See also Pub. 946, How to Depreciate Property.

## How Much Is Taxable?

**Review of the Eligibility Test.** Generally, your home sale qualifies for the maximum exclusion if all of the following conditions are true.

- You *didn't* acquire the property through a like-kind exchange in the past 5 years.

- You *aren't* subject to the expatriate tax.
- You owned the home for at least 2 of the last 5 years and lived in the home for at least 2 (1 if you become disabled) of the last 5 years leading up to the date of the sale.\*
- For the 2 years before the date of the current sale, you didn't sell another home on which you claimed the exclusion.
- You didn't use a portion of the home outside of the living area, for business or rental purposes.
- You didn't use the entire property for business or rental purposes or as a second home after 2008.
- The sale *doesn't* involve the transfer of vacant land or a remainder interest.\*\*

\*If this condition isn't met, your home sale may qualify for a partial exclusion. The sale must involve one of the following events experienced by you, your spouse, a co-owner, or anyone else for whom the home was their residence: a work-related move, a health-related move, a death, a divorce, a pregnancy with multiple children, a change in employment status, a change in unemployment compensation eligibility, or other unusual event.

\*\*The transfer of vacant land or of a remainder interest may qualify for the maximum exclusion, but special rules apply in those situations.

For a step-by-step guide to determining whether your home sale qualifies for the maximum exclusion, see [Does Your Home Sale Qualify for the Exclusion of Gain?](#), earlier.

If you qualify for an exclusion on your home sale, up to \$250,000 (\$500,000 if married and filing jointly) of your gain will be tax free. If your gain is more than that amount, or if you qualify only for a partial exclusion, then some of your gain may be taxable. This section contains step-by-step instructions for figuring out how much of your gain is taxable. See [Worksheet 3](#), later, for assistance in determining your taxable gain.

If you determined in [Does Your Home Sale Qualify for the Exclusion of Gain?](#), earlier, that your home sale doesn't qualify for any exclusion (either full or partial), then your entire gain is taxable. If you don't have a gain, you owe no tax on the sale. In either case, you don't need to complete [Worksheet 3](#) and you can skip to [Reporting Your Home Sale](#), later.

## Recapturing Depreciation

If you were entitled to take depreciation deductions because you used your home for business purposes or as rental property, you cannot exclude the part of your gain equal to any depreciation allowed or allowable as a deduction for periods after May 6, 1997. However, if you used all of your home for business or rental, you may also have 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. See [Additional Depreciation](#) in

Pub. 544 for more information about depreciation recapture.

See [Determine any depreciation amounts you may need to recapture](#), later, for more detail.

**Example.** Cartier owned and used a house as a main home from 2017 through 2020. On January 1, 2021, Cartier moved to another state. Cartier rented the home from that date until April 30, 2023, when Cartier sold it. During the 5-year period ending on the date of sale (May 1, 2018–April 30, 2023), Cartier owned and lived in the house for more than 2 years. Because the period of nonqualified use doesn't include any part of the 5-year period after the last date Cartier lived in the home, there is no pe-

riod of nonqualified use. Because Cartier met the ownership and use tests, Cartier can exclude gain up to \$250,000. However, Cartier can't exclude the part of the gain equal to the depreciation Cartier claimed or could have claimed for renting the house.

[Worksheet 3](#) is used to help you figure taxable gain on the sale or exchange of your home (if any) and how to report it.

**Tip:** If you completed "Business or Rental" and "Home" versions of your gain/loss worksheet, as described in [Property Used Partly for Business or Rental](#), earlier, complete Worksheet 3 only for the "Home" version.

### Worksheet 3. Determine if You Have Taxable Gain

If you completed "Business or Rental" and "Home" versions of your gain/loss worksheet, as described in [Property Used Partly for Business or Rental](#), earlier, complete Worksheet 3 only for the "Home" version. However, the section 121 exclusion is reduced to the extent of any depreciation adjustments in connection with the business use of your residence. Worksheet 2 allocated a separate portion of the property used for Business or Rental, if any, to figure the amount of gain potentially excluded under section 121. Worksheet 3 helps you figure how much of the gain calculated in Worksheet 2 will be excluded under section 121 based, in part, on whether you, your spouse, or a former spouse used the entire property as your principal residence or for another purpose, for example, for rental use or as a second home or a vacation home.

|   |  |
|---|--|
| <b>Section A. Depreciation. Determine your net gain. Complete this section only if you used all or part of your home for business or rental purposes between May 7, 1997, and the date of sale. Otherwise, skip to Section B.</b>   |  |
| Step 1  | Enter your gain from line 7 of <a href="#">Worksheet 2</a> .....   |
| Step 2  | List the total of all depreciation deductions that you took or could have taken for the use of all or part of your home for business or rental purposes between May 7, 1997, and the date of sale. ....  |
| Step 3  | Subtract the sum of Step 2 from the amount listed in Section A, Step 1. This is your net gain .....  |
| <b>Section B. Determine your nonqualified use gain. Complete this section only if the following apply: a) During the time you owned the property there were periods of nonqualified use when neither you nor your spouse (or your former spouse) used the entire property as your main home; b) the periods of nonqualified use occurred after 2008; c) the periods of nonqualified use occurred before the last day the entire property was used as your or your spouse's (or your former spouse) main home prior to the date of sale. Do not include any period of nonqualified use that occurred after the last day that you or your spouse (or former spouse) used the entire property as your main home during the 5-year period prior to the date of sale.* Otherwise, skip to Section C.</b> |  |
| *Note: If the period of nonuse was 1) for an aggregate of 2 years or less and due to a change in employment, a health condition, or other "unforeseen circumstance" described in <a href="#">Does Your Home Qualify for a Partial Exclusion of Gain</a> , earlier; or 2) for 10 years or less and due to a "stop the clock" exception for certain military, intelligence, and Peace Corps personnel described in <a href="#">Service, Intelligence, and Peace Corps Personnel</a> , earlier, then you may skip Section B.   |  |
| Step 1  | Enter the amount from Section A, Step 3, or, if you skipped Section A, your gain from line 7 of <a href="#">Worksheet 2</a> , earlier .....  |
| Step 2  | Enter the total number of days after 2008 and before the date of sale that neither you nor your spouse (or former spouse) used the entire home as a main residence. Do not include any days that occurred after the last day that you or your spouse (or former spouse) used the entire property as your main home during the 5-year period prior to the date of sale. This number is your nonuse days ..... |
| Step 3  | Enter the total number of days you owned your home (counting all days, not just days after 2008). This number is your number of days owned .....   |
| Step 4  | Divide the nonuse days by the days owned. This number is your nonresidence factor .....  |
| Step 5  | Multiply the decimal from Section B, Step 4, by the amount listed in Section B, Step 1. This number is your nonqualified use gain .....  |
| <b>Section C. Determine your gain that is eligible for exclusion.</b>   |  |

| IF...  | THEN your gain that is eligible for exclusion is ...  |
|--|---|
| you skipped Sections A & B                           | the amount of your gain from line 7 of <a href="#">Worksheet 2</a> .                          |
| you completed Section A but skipped Section B        | your net gain from Section A, Step 3.   |
| you completed Section B but skipped Section A        | the amount from Section B, Step 1, less your nonqualified use gain from Section B, Step 5.    |
| you completed Sections A & B                         | your net gain from Section A, Step 3, less your nonqualified use gain from Section B, Step 5. |
| Your gain that is eligible for exclusion is \$ _____ |   |

**Section D. Determine if you have taxable gain.**

| IF...  | THEN ...  |
|--|---|
| your gain that is eligible for exclusion from Section C is less than or equal to your exclusion limit from <a href="#">Worksheet 1</a> , Section C | your gain that is eligible for exclusion from your income is not to be reported on your tax return. The <a href="#">Reporting Your Home Sale</a> section only applies to your nonqualified use gain. However, you may need to complete Form 8949 if Form 1099-S was received. See <a href="#">Reporting Gain or Loss on Your Home Sale</a> , later. |
| your gain that is eligible for exclusion from Section C is greater than your exclusion limit from <a href="#">Worksheet 1</a> , Section C          | some of your gain isn't excludable, and you may owe tax on it. See <a href="#">Reporting Your Home Sale</a> for instructions on how to report the gain on your tax return.  |

## Reporting Your Home Sale

This section tells you how to report taxable gain, take deductions relating to your home sale, and report income other than the gain that you may have received from your home sale.

This section also covers special circumstances that apply to some home sellers.

**What records to keep.** Any time you buy real estate, you should keep records to document the property's adjusted basis. In general, keep these records until 3 years after the due date for your tax return for the year in which you sold your home.

## Reporting Gain or Loss on Your Home Sale

**Determine whether you need to report the gain from your home.** You need to report the gain if ANY of the following is true.

- You have taxable gain on your home sale (or on the residential portion of your property if you made separate calculations for home and business) and don't qualify to exclude all of the gain.
- You received a Form 1099-S. If so, you must report the sale on Form 8949 even if you have no taxable gain to report. See *Instructions for Form 8949* and *Instructions for Schedule D (Form 1040)* for more details.
- You wish to report your gain as a taxable gain even though some or all of it is eligible for exclusion. You may wish to do this if, for example, you plan to sell another main home within the next 2 years and are likely

to receive a larger gain from the sale of that property. If you later choose to report, rather than exclude, your taxable gain, you can undo that choice by filing an amended return within 3 years of the due date of your return for the year of the sale, excluding extensions.

If NONE of the three bullets above is true, you don't need to report your home sale on your tax return. If you didn't make separate home and business calculations on your property, skip to [Reporting Deductions Related to Your Home Sale](#), later.

If ANY of the three bullets above is true, skip to [Determine whether your home sale is an installment sale](#), later.

**If you made separate gain/loss calculations for business and residence portions of your property,** you may have to use Form 4797 to report the sale of the business or rental part. See [Property Used Partly for Business or Rental](#), earlier.

**Determine any depreciation amounts you may need to recapture.** The exclusion of gain doesn't apply to any gain from depreciation adjustments attributable to periods after May 6, 1997. Such gain is not accounted for in determining the amount of gain allocated to business or rental use. You must adjust basis for depreciation deducted in earlier years. If you didn't deduct any depreciation, decrease your basis by the amount you could have deducted. For information on depreciation deductions associated with business or rental use of a principal residence, see Pub. 946.

For depreciation deducted during periods of rental or business use, the adjustment to basis will affect net gain or loss. Upon the sale of real property held more than a year, additional depreciation in excess of the straight-line method are taxed as ordinary income if the property was held more than a year. Net gain in excess of the maximum

excludable (for your filing status) is taxed at the applicable capital gains rate. See the Instructions for Form 4797 and for Schedule D (Form 1040) to figure the total amount of depreciation deductions for any period when the property was used for business or rental. See *Additional Depreciation* in Pub. 544 for guidance on the potential recapture of additional depreciation deductions.

**Determine whether your home sale is an installment sale.** If you finance the buyer's purchase of your home (you hold a note, mortgage, or other financial agreement), you probably have an installment sale. You may be able to report any nonexcludable gain on an installment basis. However, generally where a seller of property reports profit on the installment method, any recapturable depreciation gain recognized must all be reported for the year of the installment sale. Use Form 6252, Installment Sale Income, to report the sale.

For more information, see Pub. 537, *Installment Sales*.

**Report any interest you receive from the buyer.** If the buyer is making payments to you over time (as when you provide seller financing), then you must generally report part of each payment as interest on your tax return. Report the interest portion of the payment as ordinary income on Form 1040 or 1040-SR, line 2b, or Schedule NEC (Form 1040-NR) if a nonresident alien. If the buyer is using the property as a first or second home, also report the interest on Schedule B (Form 1040), Interest and Ordinary Dividends, and provide the buyer's name, address, and social security number (SSN). If you don't show the buyer's name, address, and SSN you may have to pay a \$50 penalty.

**If you're a nonresident or resident alien who doesn't have and isn't eligible to get a SSN,** you may be issued an individual taxpayer identification number (ITIN). If you don't have an ITIN, apply for one by filing Form W-7, Application for IRS Individual Taxpayer Identification Number. If needed, a nonresident or resident alien buyer can apply for an ITIN as well.

**Complete Form 8949, Sales and Other Dispositions of Capital Assets.** Use Form 8949 to report gain from the sale or disposition of the personal-use portion of your home if you can't exclude the gain. If you received Form 1099-S, report the transaction on Form 8949. See the Instructions for Form 8949.

**Reporting recognized gain.** If you have gain that can't be excluded, you must generally report it on Form 8949, Sales and Other Dispositions of Capital Assets, and Schedule D (Form 1040), Capital Gains and Losses. Report the sale on Part I or Part II of Form 8949 as a short-term or long-term transaction, depending on how long you owned the home. In addition, you may be able to temporarily defer capital gains invested in a Qualified Opportunity Fund (QOF). You may also be able to permanently exclude capital gains from the sale or exchange of an investment in a QOF if the investment is held for at least 10 years. For more information, see the Instructions for Form 8949.

**Complete Schedule D (Form 1040), Capital Gains and Losses.** Using the information on Form 8949, report on Schedule D (Form 1040) the gain or loss on your home as a capital gain or loss. Follow the instructions for Schedule D when completing the form.

If you have any taxable gain from the sale of your home, you may have to increase your withholding or make estimated tax payments. See Pub. 505, *Tax Withholding and Estimated Tax*.

## Reporting Deductions Related to Your Home Sale

If you aren't itemizing deductions on your return for the year in which you sold your home, skip to [Reporting Other Income Related to Your Home Sale](#), later.

There is no tax deduction for transfer taxes, stamp taxes, or other taxes, fees, and charges you paid when you sold your home. However, if you paid these amounts as the seller, you can treat these taxes and fees as selling expenses. If you pay these amounts as the buyer, include them in your cost basis of the property.

**Determine the amount of real estate tax deductions associated with your home sale.** Depending on your circumstances, you may need to figure your real estate tax deductions differently. See the discussion that follows for more information.

**If you didn't receive a Form 1099-S,** use the following method to compute your real estate tax deduction, which may be different from the amount of real estate tax you actually paid.

- Divide the number of days you owned the property during the year of sale, not counting the date of sale, by 365 (or 366 for a leap year).
- Multiply that figure by the amount of real estate tax due on the home during the 12-month billing cycle that contains the date of sale. The result is the amount of real estate tax you can deduct as an itemized deduction.

**Example.** The real estate tax on Jackie and Pat White's home was \$620 for the year. Their real property tax year was the calendar year, with payment due August 3, 2025. They sold the home on May 6, 2025. Jackie and Pat are considered to have paid a proportionate share of the real estate taxes on the home even though they didn't actually pay them to the taxing authority.

Jackie and Pat owned their home during the 2025 real property tax year for 125 days (January 1 to May 5, the day before the sale). They figure their deduction for taxes as follows.

|   |       |
|---|-------|
| 1. Total real estate taxes for the real property tax year . . . . .   | \$620 |
| 2. Number of days in the real property tax year that you owned the property . . . . .                         | 125   |
| 3. Divide line 2 by 365 (366 if leap year) . . . . .  | 0.342 |
| 4. Multiply line 1 by line 3. This is your deduction. Enter it on line 5b of Schedule A (Form 1040) . . . . . | \$212 |

Since the buyers paid all of the taxes, Jackie and Pat also include the \$212 in the home's selling price. The buyers add the \$212 to their basis in the home. The buyers can deduct \$408 (\$620 – \$212) as an itemized deduction, the taxes for the part of the year they owned the home.

**If you received a Form 1099-S,** start with the amount of real estate tax you actually paid in the year of sale. Subtract the buyer's share of real estate tax, as shown in box 6. The result is the amount you can use in figuring your itemized deductions.

**If you didn't already deduct all your mortgage points on an earlier tax return,** you may be able to deduct them on your tax return for the year of sale. See Pub. 936, Home Mortgage Interest Deduction.

**Report on Schedule A (Form 1040), Itemized Deductions, any itemized real estate deduction.** Follow the Instructions for Schedule A when completing the form.

## Reporting Other Income Related to Your Home Sale

**Report as ordinary income on Form 1040, 1040-SR, or 1040-NR any amounts received from selling personal property.** If you sold furniture, drapes, lawn equipment, a washer/dryer, or other property that wasn't a permanent part of your home, report the amount you received for the items as ordinary income. Report this amount on Schedule 1 (Form 1040), line 8z, or Schedule NEC (Form 1040-NR) if a nonresident alien. The selling price of your home doesn't include amounts you received for personal property sold with your home.

**Report as ordinary income on Form 1040, 1040-SR, or 1040-NR any amounts received for sales of expired options to purchase your property.** If you granted someone an option to buy your home and it expired in the year of sale, report the amount you received for the option as ordinary income. Report this amount on Schedule 1 (Form 1040), line 8z, or Schedule NEC (Form 1040-NR) if a nonresident alien.

**Report as ordinary income on Form 1040, 1040-SR, or 1040-NR applicable canceled or forgiven mortgage debt.** If you went through a mortgage workout, foreclosure, or other process in which a lender forgave or canceled mortgage debt on your home, then you must generally report the amount of forgiven or canceled debt as income on your tax return. However, if you had a written agreement for the forgiveness of the debt in place before January 1, 2026, then you may be able to exclude the forgiven amount from your income. For more information, see Pub. 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonments.

## Paying Back Credits and Subsidies

If you received any homebuyer credits or federal mortgage subsidies, you may have to pay back ("recapture") some or all of the amount by increasing your tax payment.

**Determine any amounts you may have received in federal mortgage subsidies in the 9 years leading up to the date of sale.** If you financed your home under a federally subsidized program (loans from tax-exempt qualified mortgage bonds or loans with mortgage credit certificates), you may have to recapture all or part of the benefit you received from that program upon the sale or other transfer of ownership of your home. You recapture the benefit by increasing your federal income tax for the year of the sale. You may have to pay this recapture tax even if you can exclude your gain from income under the rules discussed earlier; that exclusion doesn't affect the recapture tax.

See Form 8828, Recapture of Federal Mortgage Subsidy, to find out how much to repay or whether you qualify for any exceptions.

If you did receive any federal mortgage subsidies, you must file Form 8828 with your tax return whether you sold your home at a loss or a gain. If you had a loss, you won't have to pay back any subsidy.

## How To Get Tax Help

If you have questions about a tax issue; need help preparing your tax return; or want to download free publications, forms, or instructions, go to [IRS.gov](https://www.irs.gov) to find resources that can help you right away.

**Tax reform.** Tax reform legislation impacting federal taxes, credits, and deductions was enacted in P.L. 119-21, commonly known as the One Big Beautiful Bill Act, on July 4, 2025. Go to [IRS.gov/OBBB](https://www.irs.gov/OBBB) for more information and updates on how this legislation affects your taxes.

**Preparing and filing your tax return.** After receiving all your wage and earnings statements (Forms W-2, W-2G, 1099-R, 1099-MISC, 1099-NEC, etc.); unemployment compensation statements (by mail or in a digital format) or other government payment statements (Form 1099-G); and interest, dividend, and retirement statements from banks and investment firms (Forms 1099), you have several options to choose from to prepare and file your tax return. You can prepare the tax return yourself, see if you qualify for free tax preparation, or hire a tax professional to prepare your return.

**Free options for tax preparation.** Your options for preparing and filing your return online or in your local community, if you qualify, include the following.

- **Free File.** This program lets you prepare and file your federal individual income tax return for free using software or Free File Fillable Forms. However, state tax preparation may not be available through Free File. Go to [IRS.gov/FreeFile](https://www.irs.gov/FreeFile) to see if you qualify for free online federal tax preparation, e-filing, and direct deposit or payment options.
- **VITA.** The Volunteer Income Tax Assistance (VITA) program offers free tax help to people with low-to-moderate incomes, persons with disabilities, and limited-English-speaking taxpayers who need

help preparing their own tax returns. Go to [IRS.gov/VITA](#), download the free IRS2Go app, or call 800-906-9887 for information on free tax return preparation.

- **TCE.** The Tax Counseling for the Elderly (TCE) program offers free tax help for all taxpayers, particularly those who are 60 years of age and older. TCE volunteers specialize in answering questions about pensions and retirement-related issues unique to seniors. Go to [IRS.gov/TCE](#) or download the free IRS2Go app for information on free tax return preparation.
- **MilTax.** Members of the U.S. Armed Forces and qualified veterans may use MilTax, a free tax service offered by the Department of Defense through Military OneSource. For more information, go to [MilitaryOneSource \(MilitaryOneSource.mil/MilTax\)](#).

Also, the IRS offers Free Fillable Forms, which can be completed online and then e-filed regardless of income.

**Using online tools to help prepare your return.** Go to [IRS.gov/Tools](#) for the following.

- The [Earned Income Tax Credit Assistant \(IRS.gov/EITCAssistant\)](#) determines if you're eligible for the earned income credit (EITC).
- The [Online EIN Application \(IRS.gov/EIN\)](#) helps you get an employer identification number (EIN) at no cost.
- The [Tax Withholding Estimator \(IRS.gov/W4App\)](#) makes it easier for you to estimate the federal income tax you want your employer to withhold from your paycheck. This is tax withholding. See how your withholding affects your refund, take-home pay, or tax due.
- The [Sales Tax Deduction Calculator \(IRS.gov/SalesTax\)](#) figures the amount you can claim if you itemize deductions on Schedule A (Form 1040).



**Getting answers to your tax questions.** On IRS.gov, you can get up-to-date information on current events and changes in tax law.

- [IRS.gov/Help](#): A variety of tools to help you get answers to some of the most common tax questions.
- [IRS.gov/ITA](#): The Interactive Tax Assistant, a tool that will ask you questions and, based on your input, provide answers on a number of tax topics.
- [IRS.gov/Forms](#): Find forms, instructions, and publications. You will find details on the most recent tax changes and interactive links to help you find answers to your questions.
- You may also be able to access tax information in your e-filing software.

**Need someone to prepare your tax return?** There are various types of tax return preparers, including enrolled agents, certified public accountants (CPAs), accountants, and many others who don't have professional credentials.

If you choose to have someone prepare your tax return, choose that preparer wisely. A paid tax preparer is:

- Primarily responsible for the overall substantive accuracy of your return,
- Required to sign the return, and
- Required to include their preparer tax identification number (PTIN).



*Although the tax preparer always signs the return, you're ultimately responsible for providing all the information required for the preparer to accurately prepare your return and for the accuracy of every item reported on the return. Anyone paid to prepare tax returns for others should have a thorough understanding of tax matters. For more information on how to choose a tax preparer, go to [Tips for Choosing a Tax Preparer](#) on IRS.gov.*

**Employers can register to use Business Services Online.** The Social Security Administration (SSA) offers online service at [SSA.gov/employer](#) for fast, free, and secure W-2 filing options to CPAs, accountants, enrolled agents, and individuals who process Form W-2, Wage and Tax Statement; and Form W-2c, Corrected Wage and Tax Statement.

**Business tax account.** If you are a sole proprietor, a partnership, an S corporation, a C corporation, or a single-member limited liability company (LLC), you can view your tax information on record with the IRS and do more with a business tax account. Go to [IRS.gov/BusinessAccount](#) for more information.

**IRS social media.** Go to [IRS.gov/SocialMedia](#) to see the various social media tools the IRS uses to share the latest information on tax changes, scam alerts, initiatives, products, and services. At the IRS, privacy and security are our highest priority. We use these tools to share public information with you. **Don't** post your social security number (SSN) or other confidential information on social media sites. Always protect your identity when using any social networking site.

The following IRS YouTube channels provide short, informative videos on various tax-related topics in English and ASL.

- [Youtube.com/irsvideos](#).
- [Youtube.com/irsvideosASL](#).

**Over-the-Phone Interpreter (OPI) Service.** The IRS offers the OPI Service to taxpayers needing language interpretation. The OPI Service is available at Taxpayer Assistance Centers (TACs), most IRS offices, and every VITA/TCE tax return site. This service is available in Spanish, Mandarin, Cantonese, Korean, Vietnamese, Russian, and Haitian Creole.

**Accessibility Helpline available for taxpayers with disabilities.** Taxpayers who need information about accessibility services can call 833-690-0598. The Accessibility Helpline can answer questions related to current and future accessibility products and services available in

alternative media formats (for example, braille-ready, large print, audio, etc.). The Accessibility Helpline does not have access to your IRS account. For help with tax law, refunds, or account-related issues, go to [IRS.gov/LetUsHelp](#).

**Alternative media preference.** Form 9000, Alternative Media Preference, or Form 9000(SP) allows you to elect to receive certain types of written correspondence in the following formats.

- Standard Print.
- Large Print.
- Braille.
- Audio (MP3).
- Plain Text File (TXT).
- Braille-Ready File (BRF).

**Disasters.** Go to [IRS.gov/DisasterRelief](#) to review the available disaster tax relief.

**Getting tax forms and publications.** Go to [IRS.gov/Forms](#) to view, download, or print all the forms, instructions, and publications you may need. Or you can go to [IRS.gov/OrderForms](#) to place an order.

**Mobile-friendly forms.** You'll need an IRS Online Account (OLA) to complete mobile-friendly forms that require signatures. You'll have the option to submit your form(s) online or download a copy for mailing. You'll need scans of your documents to support your submission. Go to [IRS.gov/MobileFriendlyForms](#) for more information.

**Getting tax publications and instructions in eBook format.** Download and view most tax publications and instructions (including the Instructions for Form 1040) on mobile devices as eBooks at [IRS.gov/eBooks](#).

IRS eBooks have been tested using Apple's iBooks for iPad. Our eBooks haven't been tested on other dedicated eBook readers, and eBook functionality may not operate as intended.

**Access your online account (individual taxpayers only).** Go to [IRS.gov/Account](#) to securely access information about your federal tax account.

- View the amount you owe and a breakdown by tax year.
- See payment plan details or apply for a new payment plan.
- Make a payment or view 5 years of payment history and any pending or scheduled payments.
- Access your tax records, including key data from your most recent tax return, and transcripts.
- View digital copies of select notices from the IRS.
- Approve or reject authorization requests from tax professionals.

**Get a transcript of your return.** With an online account, you can access a variety of information to help you during

the filing season. You can get a transcript, review your most recently filed tax return, and get your adjusted gross income. Create or access your online account at [IRS.gov/Account](#).

**Tax Pro Account.** This tool lets your tax professional submit an authorization request to access your individual taxpayer IRS OLA. For more information, go to [IRS.gov/TaxProAccount](#).

**Using direct deposit.** The safest and easiest way to receive a tax refund is to *e-file* and choose direct deposit, which securely and electronically transfers your refund directly into your financial account. Direct deposit also avoids the possibility that your check could be lost, stolen, destroyed, or returned undeliverable to the IRS. Eight in 10 taxpayers use direct deposit to receive their refunds. If you don't have a bank account, go to [IRS.gov/DirectDeposit](#) for more information on where to find a bank or credit union that can open an account online.

**Reporting and resolving your tax-related identity theft issues.**

- Tax-related identity theft happens when someone steals your personal information to commit tax fraud. Your taxes can be affected if your SSN is used to file a fraudulent return or to claim a refund or credit.
- The IRS doesn't initiate contact with taxpayers by email, text messages (including shortened links), telephone calls, or social media channels to request or verify personal or financial information. This includes requests for personal identification numbers (PINs), passwords, or similar information for credit cards, banks, or other financial accounts.
- Go to [IRS.gov/IdentityTheft](#), the IRS Identity Theft Central webpage, for information on identity theft and data security protection for taxpayers, tax professionals, and businesses. If your SSN has been lost or stolen or you suspect you're a victim of tax-related identity theft, you can learn what steps you should take.
- Get an Identity Protection PIN (IP PIN). IP PINs are six-digit numbers assigned to taxpayers to help prevent the misuse of their SSNs on fraudulent federal income tax returns. When you have an IP PIN, it prevents someone else from filing a tax return with your SSN. To learn more, go to [IRS.gov/IPPIN](#).

**Ways to check on the status of your refund.**

- Go to [IRS.gov/Refunds](#).
- Download the official IRS2Go app to your mobile device to check your refund status.
- Call the automated refund hotline at 800-829-1954.



*The IRS can't issue refunds before mid-February for returns that claimed the EITC or the additional child tax credit (ACTC). This applies to the entire refund, not just the portion associated with these credits.*

**Making a tax payment.** The IRS recommends paying electronically whenever possible. Options to pay electronically are included in the list below. Payments of U.S. tax must be remitted to the IRS in U.S. dollars. *Digital assets* are **not** accepted. Go to [IRS.gov/Payments](#) for information on how to make a payment using any of the following options.

- [IRS Direct Pay](#): Pay taxes from your bank account. It's free and secure, and no sign-in is required. You can change or cancel within 2 days of scheduled payment.
- [Debit Card, Credit Card, or Digital Wallet](#): Choose an approved payment processor to pay online or by phone.
- [Electronic Funds Withdrawal](#): Schedule a payment when filing your federal taxes using tax return preparation software or through a tax professional.
- [Electronic Federal Tax Payment System](#): This is the best option for businesses. Enrollment is required.
- [Check or Money Order](#): Mail your payment to the address listed on the notice or instructions.
- [Cash](#): You may be able to pay your taxes with cash at a participating retail store.
- [Same-Day Wire](#): You may be able to do same-day wire from your financial institution. Contact your financial institution for availability, cost, and time frames.

**Note:** The IRS uses the latest encryption technology to ensure that the electronic payments you make online, by phone, or from a mobile device using the IRS2Go app are safe and secure. Paying electronically is quick and easy.

**What if I can't pay now?** Go to [IRS.gov/Payments](#) for more information about your options.

- Apply for an [online payment agreement \(IRS.gov/OPA\)](#) to meet your tax obligation in monthly installments if you can't pay your taxes in full today. Once you complete the online process, you will receive immediate notification of whether your agreement has been approved.
- Use the [Offer in Compromise Pre-Qualifier](#) to see if you can settle your tax debt for less than the full amount you owe. For more information on the Offer in Compromise program, go to [IRS.gov/OIC](#).

**Filing an amended return.** Go to [IRS.gov/1040X](#) for information and updates.

**Checking the status of your amended return.** Go to [IRS.gov/VMAR](#) to track the status of Form 1040-X amended returns.



*It can take up to 3 weeks from the date you filed your amended return for it to show up in our system, and processing it can take up to 16 weeks.*

**Understanding an IRS notice or letter you've received.** Go to [IRS.gov/Notices](#) to find additional information about responding to an IRS notice or letter.

**IRS Document Upload Tool.** You may be able to use the Document Upload Tool to respond digitally to eligible IRS notices and letters by securely uploading required documents online through IRS.gov. For more information, go to [IRS.gov/DUT](#).

**Schedule LEP.** You can use Schedule LEP (Form 1040), Request for Change in Language Preference, to state a preference to receive notices, letters, or other written communications from the IRS in an alternative language. You may not immediately receive written communications in the requested language. The IRS's commitment to LEP taxpayers is part of a multi-year timeline that began providing translations in 2023. You will continue to receive communications, including notices and letters, in English until they are translated to your preferred language.

**Contacting your local TAC.** Keep in mind, many questions can be answered on IRS.gov without visiting a TAC. Go to [IRS.gov/LetUsHelp](#) for the topics people ask about most. If you still need help, TACs provide tax help when a tax issue can't be handled online or by phone. All TACs now provide service by appointment, so you'll know in advance that you can get the service you need without long wait times. Before you visit, go to [IRS.gov/TAC](#) to find the nearest TAC and to check hours, available services, and appointment options. Or, on the IRS2Go app, under the Stay Connected tab, choose the Contact Us option and click on "Local Offices."

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Below is a message to you from the Taxpayer Advocate Service, an independent organization established by Congress.

## The Taxpayer Advocate Service (TAS) Is Here To Help You

### What Is the Taxpayer Advocate Service?

The Taxpayer Advocate Service (TAS) is an *independent* organization within the Internal Revenue Service (IRS). TAS helps taxpayers resolve problems with the IRS, makes administrative and legislative recommendations to prevent or correct the problems, and protects taxpayer rights. We work to ensure that every taxpayer is treated fairly and that you know and understand your rights under the Taxpayer Bill of Rights. We are Your Voice at the IRS.

### How Can TAS Help Me?

TAS can help you resolve problems that you haven't been able to resolve with the IRS on your own. Always try to resolve your problem with the IRS first, but if you can't, then come to TAS. ***Our services are free.***

- TAS helps all taxpayers (and their representatives), including individuals, businesses, and exempt organizations. You may be eligible for TAS help if your IRS problem is causing financial difficulty, if you've tried and been unable to resolve your issue with the IRS, or if you believe an IRS system, process, or procedure just isn't working as it should.

- To get help any time with general tax topics, visit [www.TaxpayerAdvocate.IRS.gov](http://www.TaxpayerAdvocate.IRS.gov). The site can help you with common tax issues and situations, such as what to do if you make a mistake on your return or if you get a notice from the IRS.
- TAS works to resolve large-scale (systemic) problems that affect many taxpayers. You can report systemic issues at [www.IRS.gov/SAMS](http://www.IRS.gov/SAMS). (Be sure not to include any personal identifiable information.)

## How Do I Contact TAS?

TAS has offices in every state, the District of Columbia, and Puerto Rico. To find your local advocate's number:

- Go to [www.TaxpayerAdvocate.IRS.gov/Contact-Us](http://www.TaxpayerAdvocate.IRS.gov/Contact-Us),

- Check your local directory, or
- Call TAS toll free at 877-777-4778.

## What Are My Rights as a Taxpayer?

The Taxpayer Bill of Rights describes ten basic rights that all taxpayers have when dealing with the IRS. Go to [www.TaxpayerAdvocate.IRS.gov/Taxpayer-Rights](http://www.TaxpayerAdvocate.IRS.gov/Taxpayer-Rights) for more information about the rights, what they mean to you, and how they apply to specific situations you may encounter with the IRS. TAS strives to protect taxpayer rights and ensure the IRS is administering the tax law in a fair and equitable way.



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**B**

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**C**

Capital Gains:  
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**P**

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**S**

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**T**

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**W**

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