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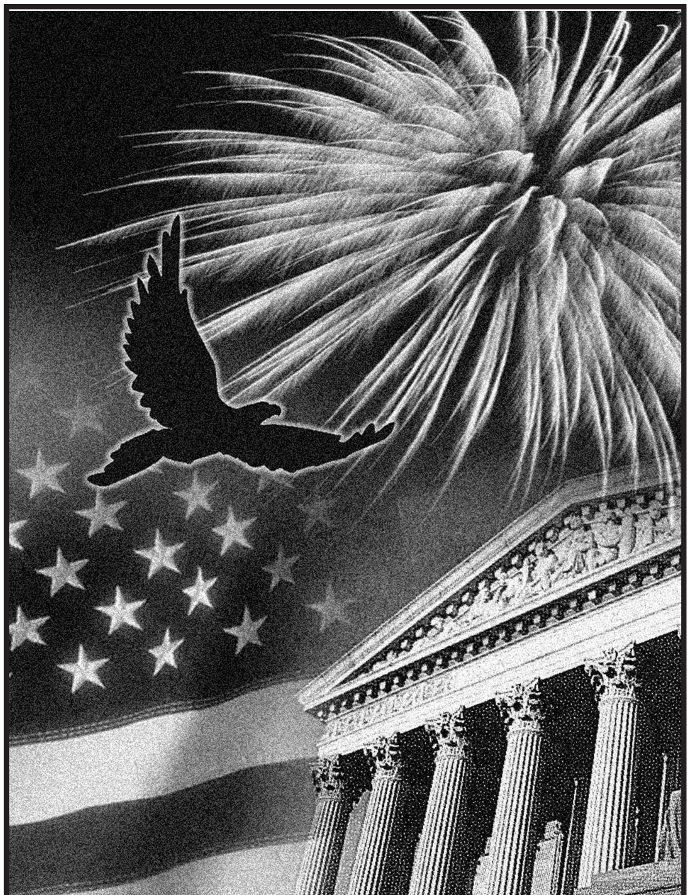
Selling Your Home

For use in preparing
2015 Returns



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Dec 28, 2015

Contents

Key Points

This publication explains the tax rules that apply when you sell (or otherwise give up ownership of) a home. It also shows you how to do the calculations you'll need to do.

If you sell your home at a significant profit (gain), some or all of that gain could be taxable. However, in most cases, if the home you sold counts as your main home, the first $250,000 of gain is not taxable—$500,000 if you are married and filing jointly.

If you sell your home at a loss, the money you receive is not taxable. However, you cannot deduct the loss from other income.

This publication will show you how to determine if you have a gain or loss, how much of that gain is taxable (if any), and how to report your transaction correctly.

Staying Current

To be sure you have the most up-to-date information related to Pub. 523, such as legislation enacted after it was published, go to *www.irs.gov/pub523*.

Related IRS Materials

You may find the following publications, forms, and instructions helpful when you are working through this publication.

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

Form (and Instructions)

- ❏ **Schedule A (Form 1040)** Itemized Deductions
- ❏ **Schedule B (Form 1040A or 1040)** Interest and Ordinary Dividends
- ❏ **Schedule D (Form 1040)** Capital Gains and Losses
- ❏ **982** Reduction of Tax Attributes Due to Discharge of Indebtedness
- ❏ **1040** U.S. Individual Income Tax Return
- ❏ **1099-S** Proceeds From Real Estate Transactions
- ❏ **4797** Sales of Business Property
- ❏ **5405** Repayment of the First-Time Homebuyer Credit
- ❏ **6252** Installment Sale Income
- ❏ **8822** Change of Address
- ❏ **8828** Recapture of Federal Mortgage Subsidy
- ❏ **8949** Sales and Other Dispositions of Capital Assets
- ❏ **W-2** Wage and Tax Statement
- ❏ **W-7** Application for IRS Individual Taxpayer Identification Number

Additional Resources

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

You can send us comments from www.irs.gov/formspubs. Click on “More Information” and then on “Give us feedback.”

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Although we cannot respond individually to each comment received, we do appreciate your feedback and will consider your comments as we revise our tax products.

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Tax questions. If you have a tax question not answered by this publication, check IRS.gov and *How To Get Tax Help* at the end of this publication.

Does Your Home Sale Qualify for Maximum Exclusion

The tax code recognizes the importance of home ownership by providing certain tax breaks when you sell your home. To qualify for these breaks, your home must meet the Eligibility Test, later.

The type of home involved is less important. A single-family home, condominium, cooperative apartment, mobile home, or houseboat can all count as a residence.

How your sale qualifies. Your sale qualifies for exclusion of $250,000 gain ($500,000 if married filing jointly) if the following is true:

- You owned the home and used it as your main home during at least 2 of the last 5 years before the date of sale.
- You did not acquire the home through a like-kind exchange (also known as a 1031 exchange), during the past 5 years.
- You did not claim any exclusion for the sale of a home that occurred during a 2-year period ending on the date of the sale of the home, the gain from which you now want to exclude.

If all of these are true, skip to Figuring Gain or Loss, later.

If one or more of these are not true, you might still be eligible. Keep reading to find out.

Transfer of your home. 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 on your tax forms and this entire publication does not apply to you.

Main Home

If you own or live in more than one home, the test for determining which one is your main home is a "facts and circumstances" test.

The most important factor is where you spend the most time. However, other factors can enter the picture as well. The more of these that are true of a home, the more likely 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.

Eligibility Test

You can exclude up to $250,000 of gain ($500,000 if married filing jointly) on the sale of your home if you meet the Eligibility test.

Eligibility Step 1—Automatic Disqualification

Determine whether any of the automatic disqualifications apply. Your home sale is not eligible for the exclusion if ANY of the following are true:

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

If any of these are true, 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) during the last 5 years leading up to the date of sale (date of the closing), you meet the ownership requirement.

If you received Form 1099-S, Proceeds From Real Estate Transactions, the date of sale appears in box 1 of Form 1099-S.

If you did not 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.)

Eligibility Step 3—Residence

Determine whether you meet the residence requirement. If your home was your residence for at least 24 of the months you owned the home during the 5 years leading up to the date of sale, you meet the residence requirement. The 24 months of residence can fall anywhere within the 5-year period. It doesn't even have to be a single block of time. All you need is a total of 24 months (730 days) of residence during the 5-year period.

If you were ever away from home, you need to determine whether that counts as time living at home or not. 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 have a disability, and are physically or mentally unable to care for yourself, you only need to show that your home was your residence for at least 12 months out of the 5 years leading up to the date of sale. In addition, any time you spend living in a care facility (such as a nursing home) counts toward your residence requirement, so long as the facility has a license from a state or other political entity to care for people with your condition.

If you have more than one home, see Main Home, earlier.

If your home was destroyed or condemned, see Home Destroyed or Condemned—Considerations for Benefits, later.

If you work for the government as uniformed or intelligence personnel, or are with the Peace Corps, see Service, Intelligence, and Peace Corps Personnel, later.

Eligibility Step 4—Look-Back

Determine whether you meet the look-back requirement. If you did not exclude gain for selling a home on your tax returns for the previous two years (and you do not intend to do so on any returns or amended returns for the past two years that are not yet filed), you meet the look-back requirement.

Eligibility Step 5—Exceptions

Check to see if there is anything about your situation that could affect your answer to Eligibility Step 2—Ownership through Eligibility Step 4—Look-Back.

You'll need to review *Does Your Home Qualify—Details and Exceptions*, later, if any of the following are true:

- A marriage, separation, divorce, or the death of a spouse occurred during the ownership of the home.
- The sale involved vacant land.
- What you sold was a “remainder interest” (such as ownership of a home in which another person has the right to live for the rest of their life).
- Your previous home was destroyed or condemned.

Eligibility Step 6—Review

Review your eligibility. If you meet the ownership, residence, and look-back requirements, your home sale qualifies for exclusion, skip to *Figuring Gain or Loss*, later.

If you did not meet all the tests in Eligibility Step 1 through Eligibility Step 5, earlier, your home is not eligible for the full maximum exclusion. However, you may still be eligible for partial exclusion if you can show the main reason you sold your home was because of a change in workplace location, for health reasons, or because of an unforeseeable event. See *Does Your Home Qualify—Details and Exceptions*, later.

Does Your Home Qualify—Details and Exceptions

Partial Exclusion May Be Available

If you don't meet the eligibility test, you may still qualify for partial exclusion if you moved because of work, health, or an unforeseeable event.

You can qualify either by meeting a set of standard requirements (the “safe harbor” provisions) or by showing enough facts and circumstances to validate your claim.

Work-related move. You meet the standard requirements if any of the following happened during the time you owned and lived in the home you sold:

- You took or were transferred to a new job in a work location at least 50 miles farther from home than your old work location.
- You had no previous work location and you began a new job at least 50 miles from 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 standard requirements if any of the following happened during the time you owned and lived in the home you sold:

- 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.
- Family includes:
  1. Parent, grandparent, stepmother, stepfather;
  2. Child, grandchild, stepchild, adopted child, eligible foster child;
  3. Brother, sister, stepbrother, stepsister, half-brother, half-sister;
  4. Mother-in-law, father-in-law, brother-in-law, sister-in-law, son-in-law, daughter-in-law;
  5. Uncle, aunt, nephew, niece, or cousin.
- 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 happened 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 does not 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;
  3. Gave birth to two or more children from the same pregnancy;
  4. Became eligible for unemployment compensation;
  5. Became unable, because of a change in employment status, to pay basic living expenses for the household (including expenses for food, clothing, housing, medication, transportation, taxes, court-ordered payments, and expenses reasonably necessary for making an income).
  6. An event is determined to be an unforeseeable event in IRS published guidance.

Showing facts and circumstances. If your circumstances do not match any of the standard requirements described above but based on facts and circumstances the primary reason for sale 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 could not have reasonably anticipated the situation when you bought the home.
- You began to experience significant financial difficulty maintaining the home.
- The home became significantly less suitable as a main home for you and your family for a specific reason.

Married, Divorced, Widowed

Marriage. Married individuals may exclude up to $500,000 of gain if they file a joint return and neither spouse excluded gain on the sale of another home within a previous 2-year period. If one spouse meets the ownership requirement, both are considered to have met the requirement. See *Eligibility Step 2—Ownership*, earlier. However, each spouse must individually meet the residence requirement. See *Eligibility Step 3—Residence*, earlier.

Separation or divorce. You can count a home as your residence during any period when ALL of the following are true:

- You are a sole or joint owner.
- Your spouse or former spouse is allowed to live in it under a divorce or separation agreement.
- Your spouse or former spouse uses it as his or her residence (not just as a second home).

Home acquired through transfer from 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.

Death of spouse. If you sell your home after your spouse dies (within 2 years after your spouse dies), and you have not remarried as of the sale date, you can count any time when your spouse owned the home as time you owned it, and any time when the home was your spouse's residence as time when it was your residence.

Vacant Land Next to Home

If you have vacant land adjacent to the land on which your home sits, you can only claim the sale of that land 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 happened within 2 years of each other.
- Both sales either meet the eligibility test or qualify for partial tax benefits as described earlier.

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.

Home Moved to New Location

If you move your home from the land it was on, 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, you cannot 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 towards 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.

Remainder Interest

If you sell a remainder interest in your home, the sale is eligible for tax benefits as long as the buyer is not a "related person" (which can mean not only a relative but also a corporation, trust, or other organization that is closely connected to you).

If you take advantage of tax benefits when you sell a remainder interest, you cannot receive tax benefits if you later sell any other type of interest in the same home.

Like-Kind/1031 Exchange

Sale of home acquired in a like-kind exchange. You cannot claim the exclusion if:

- You acquired your home in a like-kind exchange (also known as a section 1031 exchange), or your basis in your home is determined by reference to the basis of the home in the hands of the person who acquired the property in a like-kind exchange (for example, you received the home from that person as a gift), and
- You sold the home during the 5-year period beginning with the date your home was acquired in the like-kind exchange.

Gain from a like-kind exchange is not taxable at the time of the exchange. This means that gain will not be taxed until you sell or otherwise dispose of the property you receive. To defer gain from a like-kind exchange, you must have exchanged business or investment property for business or investment property of a like kind. For more information about like-kind exchanges, see Pub. 544.

Home relinquished in a like-kind exchange. The same tests that apply to determine if you qualify to exclude gain from the sale of your main home (discussed earlier) also apply to determine if you qualify to exclude gain from the exchange of your main home for another property. Under certain circumstances, you may meet the requirements for both the exclusion of gain from the exchange of a main home and the nonrecognition of gain from a like-kind exchange (discussed above under *Sale of* home acquired in a like-kind exchange). This can occur if you used your property as your main home for a period before the exchange that meets the use test, but at the time of the exchange, you used your home for business or investment (e.g., rental) purposes. This can also occur if you used your main home partly for business or investment (e.g., rental) purposes and then exchanged the home. In these situations, you would first exclude the gain from the sale of your main home to the extent allowable, and then apply the nonrecognition of gain provisions of section 1031 for like-kind exchanges to defer any remaining gain. For more information, see Revenue Procedure 2005-14, 2005-7 I.R.B. 528, available at www.irs.gov/irb/2005-07_IRB/ar10.html.

Service, Intelligence, and Peace Corps Personnel

If you are a member of Uniformed Services, Foreign Service, or an employee of the intelligence community in the Unites States, you may choose to suspend the 5-year test period for ownership and use if you are 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 did not actually live in your home for at least the 2 years during the 5-year period ending on the date of sale.

Example. John bought and moved into a home in 2006. He lived in it as his main home for 2½ years. For the next 6 years, he did not live in it because he was on qualified official extended duty with the Army. He then sold the home at a gain in 2014. To meet the use test, John chooses to suspend the 5-year test period for the 6 years he was on qualified official extended duty. This means he can disregard those 6 years. Therefore, John's 5-year test period consists of the 5 years before he went on qualified official extended duty. He meets the ownership and use tests because he owned and lived in the home for 2½ years during this test period.

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, Coast Guard),
  2. A member of the commissioned corps of 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.

Intelligence personnel. The extension also applies to the intelligence community. You are an employee of the intelligence community if you are an employee of the following:

- The Office of the Director of National Intelligence,
- The CIA or NSA,
- The Defense Intelligence Agency,
- The National Geospatial-Intelligence Agency,
- The National Reconnaissance Office and any other office within the Department of Defense for the collection of specialized national intelligence through reconnaissance,
- Any intelligence element of the Army, Navy, Air Force, Marine Corps, FBI, the Department of Treasury, the Department of Energy, or the Coast Guard,
- The Bureau of Intelligence and Research of the Department of State, or
- Any element of the Department of Homeland Security that analyzes foreign intelligence information.

Period of suspension. The period of suspension cannot 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 cannot 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. Mary bought a home on April 1, 1999. She used it as her main home until August 27, 2002. On August 28, 2002, she went on qualified official extended duty with the Navy. She did not live in the house again before selling it on July 31, 2015. Mary chooses to use the entire 10-year suspension period. Therefore, the suspension period would extend back from July 31, 2015, to August 1, 2005, and the 5-year test period would extend back to August 1, 2000. During that period, Mary owned the house all 5 years and lived in it as her main home from August 1, 2000, until August 28, 2002, a period of more than 24 months. She meets the ownership and use tests because she owned and lived in the home for at least 2 years during this test period.

Figuring Gain or Loss

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

	Selling price
−	Selling expenses
	Amount realized
−	Adjusted basis
	Gain or loss

Gain. Gain is the excess of the amount realized over the adjusted basis of the property.

Loss. Loss is the excess of the adjusted basis over the amount realized for the property.

See *How to Figure Your Gain or Loss Worksheet*, later, for steps you should follow to figure your gain or loss.

Business or Rental Use of Home

Determine whether the space used for business during the 5 years before the sale is considered to be within your home or not. If the business or rental space was physically part of the living area of your home, such as a spare room used as a bed-and-breakfast bedroom or attic space used as a home office, your business usage does not affect your gain/loss calculations. Complete *How to Figure Your Gain or Loss Worksheet*, later.

If the business or rental space was not within your living space, such as a first-floor store with residence, an apartment with its own entrance (and kitchen and bath), or a working farm with a farmhouse on the property, continue to *Determine whether the business or rental space still counts as a business space*, next.

Determine whether the business or rental space still counts as a business space. A space formerly used for business is considered residence space if ALL of the following are true:

- You were not using the space for business or rental at the time you sold the property,
- You did not earn any business or rental income from the space in the year you sold your home, and

How to Figure Your Gain or Loss Worksheet

The process is the same for single family homes, condominiums, mobile homes, and all other types of homes. If you have questions as you work through these step-by-step instructions, or want examples of costs that can and cannot be included, see *Basis Adjustments—Details and Exceptions*, later.

- **If married and filing jointly,** figure gain or loss for both of you together.
- **If not filing jointly, or if there are two owners who are not married,** you will need a gain or loss figure for each individual. If ownership is joint, or is shared 50/50, the figure for each individual is half of the final gain or loss result from this worksheet. If ownership is divided according to different percentages, each owner's figure is the gain or loss result from this worksheet multiplied by their ownership percentage.
- **If you used any portion of the property for business or rented it out,** go to *Business or Rental Use of Home*, earlier.

1. Determine the sale price. This is everything you received in exchange for your home.

a. All money (currency, check, wire transfer)	**a.**	______
b. The value of any notes, mortgages, or other debts that the buyer agreed to assume (take over) as part of the sale	**b.**	______
c. Any real estate taxes the buyer paid on your behalf	**c.**	______
d. The fair market value of any other property or services you received	**d.**	______
e. Any amount you received for granting an option to buy your home, if the option was exercised	**e.**	______
f. Add lines 1a through 1e. This is your **sale price**	**f.**	______

- **If you received payment for personal property,** do NOT include it in the sale price (examples: furniture, draperies, rugs, washer and dryer, and lawn equipment),
- **If you received payment or reimbursement from your employer** because of a job transfer, do not include the payment as part of the selling price. Your employer will include it as wages in box 1 of your 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 non-cash payments, and you need to determine the value of these and add them to the figure in box 2.
- **If you did not receive Form 1099-S,** refer to your real estate transaction documents for the total amount you received for your home.

How to Figure Your Gain or Loss Worksheet—*Continued pg 2*

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)	**a.**	________
b. Any fees for a service that helped you sell your home without a broker	**b.**	________
c. Any advertising fees	**c.**	________
d. Any legal fees	**d.**	________
e. Any mortgage points or other loan charges you paid that would normally have been the buyer's responsibility	**e.**	________
f. Add lines 2a through 2f. These are your **selling expenses**	**f.**	________
• **If you received payment or reimbursement from your employer,** subtract from the selling expenses any portion of these expenses your employer paid or reimbursed to you.		
3. Figure your "amount realized" (sale price minus selling expenses).		
a. Your **sale price** (line 1f)	**a.**	________
b. Subtract your **selling expenses** (line 2f)	**b.**	________
c. This is your **amount realized**	**c.**	________
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 put into it 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, such as a first or second mortgage, or notes you gave the seller in payment 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*, later	**a.**	________
b. Any settlement fees or closing costs you paid when you bought your home, except for financing-related costs (such as seller-paid points). A fee paid for buying the home is any fee you would have had to pay even if you paid cash for the home. See *Basis Adjustments—Details and Exceptions* and *Fees and Closing Costs*	**b.**	________
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)	**c.**	________
d. Any amounts you spent on construction, renovation, or other improvements that are still part of your home when you sell it, but not costs or repairs and maintenance. See *Basis Adjustments—Details and Exceptions*, later	**d.**	________
e. Any amounts you spent to repair damage to your home or the land it sits on	**e.**	________
f. Any special assessments for local improvements (such as special tax or condominium association assessments that are not merely for repairs or maintenance)	**f.**	________
g. Add lines 4a through 4f. This is your **total basis**	**g.**	________

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

- **a.** Any depreciation you took for using your home as a home office . . . . **a.** ________
- **b.** Any depreciation you took — or didn't take but could have taken — for any business or investment (rental) use of your home other than home office use . . . . **b.** ________
- **c.** Any casualty losses (such as flood or fire damage) you claimed as a deduction on a federal tax return . . . . **c.** ________
- **d.** Any insurance payments you received or expect to receive for casualty losses . . . . . . **d.** ________
- **e.** Any payments you received for granting an easement, conservation restriction, or right-of-way . . . . **e.** ________
- **f.** Any energy credits or subsidies that effectively paid you back for improvements you included in your total basis (generally available only from 1977–1987). See *Basis Adjustments—Details and Exceptions*, later . . . . **f.** ________
- **g.** Any adoption credits you claimed, or any nontaxable payments from an employer-sponsored adoption assistance program, you used for improvements you included in your total basis . . . . **g.** ________
- **h.** Any District of Columbia first-time homebuyer credit you claimed . . . . **h.** ________
- **i.** 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 does not affect basis . . . . **i.** ________
- **j.** Any mortgage points the seller paid for you when you bought your home, but only if one of the following is true . . . . **j.** ________
  - You bought your home sometime between January 1, 1991 and April 5, 1994 (including those days) AND you deducted the points as home mortgage interest in the year they were paid, or
  - You bought your home after April 3, 1994 (whether you deducted the points or not).
- **k.** Any canceled or forgiven mortgage debt amount that was excluded due to a bankruptcy or insolvency and you did not have to declare as income. For more information, see Pub. 4681 . . . . **k.** ________
- **l.** 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 . . . . **l.** ________
- **m.** The value of any temporary housing the builder of your home provided for you . . . . . . **m.** ________
  - *Use this equation:*
    Contract price × Value of temporary housing ÷ (Value of temporary housing + Value of new home)
- **n.** Any gain you postponed from a home you sold before May 7, 1997 . . . . **n.** ________
- **o.** Add lines 5a through 5n. This is your **basis adjustment** . . . . **o.** ________

6. Figure your "adjusted basis" (total basis minus basis adjustments).

- **a.** Your **total basis** (line 4g) . . . . **a.** ________
- **b.** Subtract your **basis adjustments** (line 5o) . . . . **b.** ________
- **c.** This is your **adjusted basis** . . . . **c.** ________
  - 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"), do not 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).

- **a.** Your **amount realized** (line 3c) . . . . **a.** ________
- **b.** Subtract your **adjusted basis** (line 6c) . . . . **b.** ________
- **c.** This is your **gain** or **loss** . . . . **c.** ________
  - If the **number is negative** (adjusted basis is greater than amount realized), you sold your home at a loss. You cannot deduct this loss, but you do not 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.

- You used the space as residence space for 2 years out of the 5 years leading up to the sale.

If all of these are true, your business usage does NOT affect your gain/loss calculations. Complete *How to Figure Your Gain or Loss Worksheet* and then go to *How Much Is Taxable*, later.

For more information about using any part of your home for business or renting it to someone, see Pub. 587, Business Use of Your Home, and Pub. 527, Residential Rental Property.

Do you need to calculate your business and residence portions separately? If ANY of the three bullets in *Determine whether the business or rental space still counts as a business space*, earlier, is NOT true, you need to make separate gain/loss calculations for the business and residence portions of your property. Continue to *Make three copies of all pages of How to Figure Your Gain or Loss Worksheet*, next.

Make three copies of all pages of *How to Figure Your Gain or Loss Worksheet*. 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." This is the percentage of your property that is considered to have been used for business or rental.

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 did NOT 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 3 equal-sized stories, and you live in the top 2 stories and use the ground floor for a store, then you are using $\frac{1}{3}$ of the property. Your business percentage is 33.3%.

Determine the business or rental portion of each number on your "Total" worksheet. For each number on your "Total" worksheet, calculate the business-related portion of that number and enter it on your "Business or Rental" worksheet.

Note that 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 two items under Determine your "basis adjustments" (any payments, credits, or benefits you may need to deduct from your basis) in *How to Figure Your Gain or Loss Worksheet*, earlier, are business depreciation items. Any figure for these two items 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 in *Determine your "business or rental percentage"*, earlier. Use the percentage method for all items that do not require the dollar-amount or depreciation methods.

If you are unsure how to apply a percentage, simply take the percentage number, move the decimal point 2 spaces to the left, and multiply by the number you are taking a percentage of. For example, to figure 25% of $20,000, you would do this: 0.25 × $20,000 = $5,000.

Calculate the totals on your "Business" worksheet. The total you get on line 7c, under *How to Figure Your Gain or Loss Worksheet*, earlier, on your "Business" worksheet is the gain or loss related to the business or rental portion of the property you sold.

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.

Now calculate the totals on your "Home" worksheet. The total you get on line 7c, under *How to Figure Your Gain or Loss Worksheet*, earlier, on your "Home" worksheet 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.

See *Table—Does Your Home or Business Show a Gain or a Loss*, later, to determine your next steps.

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.

Some settlement fees and closing costs you cannot include in your basis are:

- Fire 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, 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,
  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. You must 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. Do not include in the cost of the house:

- The value of your own labor, or
- The value of any other labor for which you did not pay.

Costs owed by the seller that you paid. You can include in your basis any amounts the seller owes that you

Table—Does Your Home or Business Show a Gain or a Loss

IF...	SHOWS...	THEN...
your “Home” worksheet	a loss,	follow the instructions at the end of line 7c, under *How to Figure Your Gain or Loss Worksheet*, earlier, for “If the number is negative.”
your “Home” worksheet	a gain,	skip to *How Much Is Taxable*, later, to find out how much of the gain on your “Home” worksheet is taxable.
your “Business” worksheet	a loss,	do NOT follow the instructions at the end of line 7c, under *How to Figure Your Gain or Loss Worksheet*, earlier. Instead, report the loss from your “Business” worksheet on Form 4797, Sales of Business Property.
your “Business” worksheet	a gain AND you did NOT meet the 2-year residence test for the business/rental part of your home,	you cannot get tax benefits for any of the gain shown on your “Business” worksheet. Do NOT follow the instructions at the end of line 7c, under *How to Figure Your Gain or Loss Worksheet*, earlier. Instead, report the gain from your “Business” worksheet on Form 4797.
your “Business” worksheet	a gain AND you DID meet the 2-year residence test for the business/rental part of your home,	skip to *How Much Is Taxable*, later, to find out how much of the gain on your “Business” worksheet is taxable.

agree to pay (as long as the seller does not 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, to pay the seller's real estate agent).

Improvements

These 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

Keep for Your Records

Additions	**Systems**
Bedroom	Heating system
Bathroom	Central air conditioning
Deck	Furnace
Garage	Duct work
Porch	Central humidifier
Patio	Central vacuum
	Air/water filtration systems
Lawn & Grounds	Wiring
Landscaping	Security system
Driveway	Lawn sprinkler system
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 CANNOT include in your basis. You cannot include:

- Any costs of repairs or maintenance that are necessary to keeping your home in good condition but do not 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 whose life expectancy, when installed, was 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.

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

- *1977–1987.* Credit for home energy improvements,
- *1992–present.* Direct or indirect subsidy from a public utility for installations or modifications aimed at lowering a home's electricity or natural gas usage or better managing its energy demand,
- *2006–present.* Credit for home energy efficiency improvements, and
- *2006–2007 and 2009–present.*Credit for energy improvements to non-business properties.

Home Acquired Through a Trade

Traded for another home. When your home is traded for another home, it is treated like a sale of your home and a purchase of 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

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—Sale Price and Basis

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 from the destruction or condemnation of your home. 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 Gift

To determine your basis if you received your home as a gift, you will need to know most of the following:

- The adjusted basis of the person who gave it to you (the donor), and
- The home's fair market value at the time of the gift, as it was appraised for federal gift tax purposes (or for state gift tax purposes if the federal gift tax does not apply).

In some cases, you will also need to know how much federal gift tax was paid when you received the home.

If the donor's adjusted basis was more than the home's value, use the donor's adjusted basis as your basis. However, if you find this results in a loss in line 7c, under How to Figure Your Gain or Loss Worksheet, earlier, you are treated as having neither a gain nor a loss.

If the donor's adjusted basis was less than or equal to the home's value, your basis will depend on when you received the home.

Home received before 1977. Do the following calculations to find your basis:

1. Enter value of the home at the time of the gift . . . . 1.________
2. Enter total federal gift tax paid . . . . 2.________
3. Enter donor's adjusted basis . . . . 3.________
4. Add line 2 and line 3 . . . . 4.________
5. Enter the SMALLER of line 1 or line 4. This is your **basis** . . . . 5.________

Home received in 1977 or later. Do the following calculations to find your basis:

1. Enter value of the home at the time of the gift . . . . 1.________
2. Enter donor's adjusted basis . . . . 2.________
3. Enter any annual exclusion and marital or charitable deduction applied to the gift . . . . 3.________
4. Federal gift tax paid on gift . . . . 4.________
5. Subtract line 2 from line 1 . . . . 5.________
6. Subtract line 3 from line 1 . . . . 6.________
7. Divide line 4 by line 5 . . . . 7.________
8. Multiply line 7 by line 4 . . . . 8.________
9. Add line 2 and line 8. This is your **basis** . . . . 9.________

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 an estate tax return was filed or required to be filed, the value of the property listed on the estate tax return is your basis. If a federal estate tax return did not 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.

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

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

CAUTION *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, to determine your basis.*

How Much Is Taxable

If you do qualify for an exclusion on your home sale, it is possible that all of your gain will be tax-free. However, some of it may be taxable, particularly if you sold your home at a significant profit or if you only qualify for reduced benefits. This section contains step-by-step instructions for figuring out how much of your gain is taxable. See How to Figure Your Taxable Gain or Loss Worksheet, later, for assistance in determining your taxable gain.

If you determined in Does Your Home Sale Qualify for Maximum Exclusion, earlier, that your home sale doesn't qualify for any exclusion (either full or partial), then your entire gain is taxable. If you do not have a gain, you owe no tax on the sale. In either case, you do not need to work through the *How to Figure Your Taxable Gain or Loss Worksheet* and you can skip to Reporting Your Home Sale, later.

Recapturing Depreciation

If you used all or part of your home for business or rental after May 6, 1997, you may need to pay back ("recapture") some or all of the depreciation you were entitled to take on your property. "Recapturing" depreciation means you must include it as ordinary income on your tax return.

Determine any depreciation amounts you may need to recapture

1. Enter your **taxable gain** from line 3d under *How to Figure Your Taxable Gain or Loss Worksheet* . . . . 1.________
2. Enter your **total depreciation** from line 3a under *How to Figure Your Taxable Gain or Loss Worksheet* . . . . . . 2.________
3. Enter the SMALLER of line 1 and line 2 here and on line 12 of the "Unrecaptured Section 1250 Gain Worksheet" in the instructions to Schedule D (Form 1040). Follow the Schedule D instructions to complete the process . . . . 3.________

Reporting Your Home Sale

Once you've done the calculations described in this publication, you are ready to report them on your tax returns. This section tells you how, and also gives you information such as how to take deductions relating to your home sale and how to report other types of income (besides your gain) you may have received because of your home sale.

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

TIP ***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 do not qualify to exclude.
- You received Form 1099-S. If so, you must report the sale even if you have no taxable gain to report.
- You wish to report your gain as 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 property that qualifies as a home within the next two years, and that property is likely to have a larger gain. If you choose to report, rather than exclude, your taxable gain, you can go back later and undo that choice by filing an amended return, but only within 3 calendar years after the year of sale.

If NONE of the three bullets above is true, you do not need to report your home sale on your tax return. If you

How to Figure Your Taxable Gain or Loss Worksheet

If you completed “Business” and “Home” versions of your gain/loss worksheet as described in *Business or Rental Use of Home*, earlier, complete a version of the following worksheet for each, keeping in mind these additional points.

- When the worksheet below talks about “your home,” this means only the part of the property that you're covering in that worksheet, whether it is the “Home” worksheet or the “Business or Rental” worksheet.
- Figure your tax benefit limit on the whole property and then divide it between Home and Business based on the residence portion and business portion percentages you calculated earlier.

1. Start.

a. Enter your **gain** from line 7c, under *How to Figure Your Gain or Loss Worksheet*, earlier . . . . **a.** ________

2. Read the following tests carefully.

- **First test:** You did not use any part of your home for business or rental after May 6, 1997.
- **Second test:** You, your spouse, or your former spouse used your home as a main residence continuously from January 1, 2009 until the date of sale—or if that is not the case, and there was a period of non-residence use, one of these situations applies:
  1. Any portion of the 5-year period ending on the date of sale or exchange after the last date you use the property as a main home (meaning you owned and lived in the house for at least 2 years from the 5-year period ending on the date of the sale).
  2. You had a change in employment, a health condition, or other “unforeseen circumstance” described in *Does Your Home Qualify—Details and Exceptions*, earlier, and you moved out of your home for not more than 2 years in total.
  3. You or your spouse qualifies for the “stop the clock” exception for certain military, intelligence, and Peace Corps personnel described in *Service, Intelligence, and Peace Corps Personnel*, earlier.

If you **do not** meet **BOTH** tests, continue to line 3.

If you **do** meet **BOTH** tests, skip to line 4.

How to Figure Your Taxable Gain or Loss Worksheet—*Continued pg 2*

3. Determine any taxable gain.

a. Because you did not meet both tests in line 2, read the following tests carefully. Part of your gain is not eligible for exclusion.

- Did you qualify for depreciation? If you used all or part of your home for business or rental between May 6, 1997 and the date of sale, total all the depreciation deductions you could have taken because of that use, whether or not you took them. If you have good records to show the IRS did not allow you to take that much depreciation, total the amount you were actually allowed to take. Keep in mind depreciation related to business or rental use of your home before May 6, 1997 doesn't count.

Your **total depreciation** . . . . **a.** ________

b. Subtract line 3a from line 1a. If the result is less than zero, enter -0- . . . . **b.** ________

c. Did you have **non-residence gain**? If there were times after 2008 when neither you nor your spouse (or a former spouse) used your home as a main residence, and did not meet the situations under the **Second test**, above, do the following calculation:

(1) Enter the total number of days after 2008 when neither you nor your spouse (or former spouse) used the home as a main residence. This is the **non-use days** . . . . ________

(2) Enter the total number of days you owned your home (counting all days, not just days after 2008). This is the **days owned** . . . . ________

(3) Divide the **non-use days** by the **days owned**. Calculate to 3 decimal places. This is your **non-residence factor** . . . . ________

Multiply line 3b by your **non-residence factor**. This is your **non-residence gain** . . . . . . **c.** ________

For example, if you owned your home for 10 years (3,650 days), did not use it as your main residence for 500 days after 2008, and had a $20,000 gain, your calculation would look like this.

- Calculation of non-residence factor: 500 ÷ 3,650 = 0.137
- Calculation of non-residence gain: $20,000 × 0.137 = $2,740

d. Add your **total depreciation** (line 3a) to your **non-residence gain** (line 3c). You might have one but not the other. See also Recapturing Depreciation.

This is your **ineligible gain** . . . . **d.** ________

4. Determine gain eligible for exclusion.

a. Enter your **gain** (from line 3b) . . . . **a.** ________

b. Subtract your **non-residence gain** (line 3c) . . . . **b.** ________

c. This is your **gain eligible for exclusion** . . . . **c.** ________

5. Determine your exclusion limit.

a. If you qualify for an exclusion (based on the *Eligibility Test*, earlier), there are fixed dollar limits on the amount of gain that can be excluded from taxes. If you only qualify for partial exclusion, the limit will be lower, and will depend on your situation.

If you **met** the ***Eligibility Test***, earlier, follow these steps to determine your exclusion limit.

(1) If you are not married (or are married but filing a separate return), your exclusion limit is $250,000.

(2) If you own your home jointly with another person who is not your spouse, you and the other person each have an exclusion limit of $250,000. To qualify for this amount, you must each independently meet all parts of the *Eligibility Test*, earlier, except for the ownership requirement. See *Determine whether you meet the ownership requirement*, earlier. (Only one of you needs to meet the ownership test.)

(3) If you are married and filing jointly, the exclusion limit is usually $500,000. To qualify for this full amount, you must each independently meet all parts of the *Eligibility Test*, earlier, except for the ownership requirement. See *Determine whether you meet the ownership requirement*, earlier. (Only one of you needs to meet the ownership test.) If this is not the case, you will need to determine each spouse's individual limit (as if you were not married) and add them together to get your total exclusion as a couple. Generally, this situation will arise only if one person has lived in the home longer than the other, or if one spouse took an exclusion on a different home within the past 2 years.

If you owned your home **jointly** with your spouse and your **spouse has died**, your exclusion limit is $500,000, if ALL of the following are true.

- Your spouse died no more than 2 years before the date of sale.
- Neither you nor your spouse claimed an exclusion on another home during the 2 years before your spouse died.
- You meet the 2-year residence requirement independently of your spouse.
- You meet the 2-year ownership requirement (counting your spouse's ownership if you need to).
- You have not remarried at the time of sale.

If ANY of these are NOT true, your exclusion limit is $250,000.

This is your **exclusion limit** . . . . **a.** ________

b. If you **did not meet** the ***Eligibility Test***, earlier, but DO qualify for a partial exclusion, take the **smallest** of:

- The number of days (or months, it you prefer) your home was your residence during the 5-year period leading up to the sale.
- The number of days (or months) you owned the home leading up to the sale. (If you are married and filing jointly and your spouse owned the home longer than you did, use your spouse's ownership period.)
- If you claimed an exclusion on another home within the last 2 years, the number of days (or months between the date when you sold the home and the date for which you now want to claim an exclusion).
- Enter the **smallest** from above . . . . ________
- Divide by 730 days (or 24 months); calculate to 3 decimal places. If the result is less than 1, enter the result. If the result is greater than 1, enter “1” . . . . ________
- Multiply by $250,000 . . . . **x 250,000**

If you are **not married and filing jointly**, this is your **exclusion limit** . . . . **b.** ________

- If you are married and filing jointly, repeat the entire calculation for your spouse, again using $250,000 as your spouse's reduced exclusion limit. Then add your spouse's reduced exclusion limit to your own.

c. If you are **married and filing jointly**, this is your **exclusion limit** . . . . **c.** ________

6. Determine your amount of exclusion.		
a. Your **gain eligible for exclusion** (line 4c, or line 1a if you met both tests in line 2)	**a.**	______
b. Your **exclusion limit** (line 5a, 5b, or 5c)	**b.**	______
c. Your **exclusion** is the smaller of line 6a or 6b	**c.**	______

did not 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 Business or Rental Use of Home, earlier.

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 gain you cannot exclude on an installment basis. 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 as ordinary income on Form 1040, line 8a. If the buyer is using the property as a first or second home, also report the interest on Schedule B (Form 1040A or 1040), Interest and Ordinary Dividends, to Form 1040 and provide the buyer's name, address, and social security number. There is a $50 penalty per requirement for failing to meet any of these requirements.

If either you or the buyer is a nonresident or resident alien who does not have and is not eligible to get a social security number, an individual taxpayer identification number (ITIN) may be provided instead. If you do not have an ITIN, apply for one by filing Form W-7, Application for IRS Individual Taxpayer Identification Number.

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 cannot exclude the gain.

TIP *If you have gain that cannot be excluded, you generally must 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. 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 captial gain or loss. Follow the Instructions for Schedule D when completing the form. Note you will not be able to use Form 1040EZ, Income Tax Return for Single and Joint Filers With No Dependents, for your return.

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 are not 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.

Note there is no tax deduction for transfer taxes, stamp taxes, or other taxes, fees, and charges you paid when you sold your home. However, you can treat these taxes and fees as selling expenses as described in line 1 under How to Figure Your Gain or Loss Worksheet, earlier. 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. Follow the instructions under If you did not receive a Form 1099-S, later. If you are not 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.

If you did not receive a Form 1099-S, use the following method to compute your real estate tax deduction, which can sometimes be different from the amount of real estate tax you actually paid.

- Take the amount of real estate tax due on your home for the 12-month tax billing cycle that contains your date of sale. Depending on your town or county's tax billing cycle, this 12-month period may or may not be a calendar year.

- Take the number of days you owned the property during the year of sale, not counting the date of sale, and divide it by 365 (or 366 for a leap year).
- Express the result as a decimal calculated to 3 places.
- Multiply the annual real estate tax (as you computed it in the first bullet point) by this decimal. The result is the amount of real estate tax you can deduct as an itemized deduction.

Example. The tax on Dennis and Beth White's home was $620 for the year. Their real property tax year was the calendar year, with payment due August 3, 2015. They sold the home on May 7, 2015. Dennis and Beth are considered to have paid a proportionate share of the real estate taxes on the home even though they did not actually pay them to the taxing authority.

Dennis and Beth owned their home during the 2015 real property tax year for 126 days (January 1 to May 6, 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	126
3.	Divide line 2 by 365 (366 if leap year)	.345
4.	Multiply line 1 by line 3. This is your deduction. Enter it on line 6 of Schedule A (Form 1040)	$214

Since the buyers paid all of the taxes, Dennis and Beth also include the $214 in the home's selling price. The buyers add the $214 to their basis in the home. The buyers can deduct $406 ($620 – $214) 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 5. The result is the amount you can deduct as an itemized deduction.

If you did not 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 any amounts received for sales of personal property. This includes any payments you received for furniture, drapes, lawn equipment, a washer/dryer, or any other property you sold that was not a permanent part of your home. The selling price of your home does not include amounts you received for personal property sold with your home.

Report as ordinary income on Form 1040 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 Form 1040, line 21 or 1040NR, line 21.

Report as ordinary income on Form 1040 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, the amount of debt that was forgiven or canceled must normally be reported as income on your tax return. However, you can exclude up to $2 million of canceled or forgiven debt ($1 million if you are single or if you are married and filing separately) from your income if ALL of the following are true.

- The debt was taken out to buy, build, or substantially improve your main residence. If you have more than one residence, see Does Your Home Qualify—Details and Exceptions, earlier, to determine which is your main residence.
- The debt was secured by your main residence.
- The loan amount (amount of principal), not counting interest, did not exceed the cost of your main residence plus improvements.
- The debt was canceled or forgiven because the value of your home declined or your financial circumstances worsened.

If you qualify to exclude canceled or forgiven mortgage debt on your home, file Form 982 with your tax return.

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 claimed as a first-time homebuyer tax credit.

- If you bought your home in 2008, you must pay back the credit unless you qualify for an exception.
- If you bought your home in 2010 or 2011, you may have to pay back the credit if the home was destroyed or you sold it through condemnation or under threat of condemnation in 2013.

See Form 5405, Repayment of the First-Time Homebuyer Credit, to find out how much to pay back, or if you qualify for any exceptions. If you do have to repay the credit, file Form 5405 with your tax return.

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 when you sell or otherwise dispose 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 does not 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 not 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 and find resources that can help you right away.

Preparing and filing your tax return. Find free options to prepare and file your return on IRS.gov or in your local community if you qualify.

- Go to IRS.gov and click on the Filing tab to see your options.
- Enter "Free File" in the search box to see whether you can use brand-name software to prepare and *e-file* your federal tax return for free.
- Enter "VITA" in the search box, download the free IRS2Go app, or call 1-800-906-9887 to find the nearest Volunteer Income Tax Assistance or Tax Counseling for the Elderly (TCE) location for free tax preparation.
- Enter "TCE" in the search box, download the free IRS2Go app, or call 1-888-227-7669 to find the nearest Tax Counseling for the Elderly location for free tax preparation.

The Volunteer Income Tax Assistance (VITA) program offers free tax help to people who generally make $54,000 or less, persons with disabilities, the elderly, and limited-English-speaking taxpayers who need help preparing their own tax returns. 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.

Getting answers to your tax law questions. On IRS.gov, get answers to your tax questions anytime, anywhere.

- Go to *www.irs.gov/Help-&-Resources* for a variety of tools that will help you with your taxes.
- Enter "ITA" in the search box on IRS.gov for the Interactive Tax Assistant, a tool that will ask you questions on a number of tax law topics and provide answers. You can print the entire interview and the final response.
- Enter "Pub 17" in the search box on IRS.gov to get Pub. 17, Your Federal Income Tax for Individuals, which features details on tax-saving opportunities, 2015 tax changes, and thousands of interactive links to help you find answers to your questions.
- Additionally, you may be able to access tax law information in your electronic filing software.

Tax forms and publications. You can download or print all of the forms and publications you may need on *www.irs.gov/formspubs*. Otherwise, you can go to *www.irs.gov/orderforms* to place an order and have forms mailed to you. You should receive your order within 10 business days.

Direct Deposit. The fastest way to receive a tax refund is by combining direct deposit and IRS *e-file*. Direct deposit securely and electronically transfers your refund directly into your financial account. Eight in 10 taxpayers use direct deposit to receive their refund. The majority of refunds are received within 21 days or less.

Getting a transcript or copy of a return.

- Go to IRS.gov and click on "Get Transcript of Your Tax Records" under "Tools."
- Call the transcript toll-free line at 1-800-908-9946.
- Mail Form 4506-T or Form 4506T-EZ (both available on IRS.gov).

Using online tools to help prepare your return. Go to IRS.gov and click on the Tools bar to use these and other self-service options.

- The *Earned Income Tax Credit Assistant* determines if you are eligible for the EIC.
- The *Online EIN Application* helps you get an employer identification number.
- The *IRS Withholding Calculator* estimates the amount you should have withheld from your paycheck for federal income tax purposes.
- The *Electronic Filing PIN Request* helps to verify your identity when you do not have your prior year AGI or prior year self-selected PIN available.
- The *First Time Homebuyer Credit Account Look-up* tool provides information on your repayments and account balance.

For help with the alternative minimum tax, go to IRS.gov/AMT.

Understanding identity theft issues.

- Go to *www.irs.gov/uac/Identity-Protection* for information and videos.
- If your SSN has been lost or stolen or you suspect you are a victim of tax-related identity theft, visit

www.irs.gov/identitytheft to learn what steps you should take.

Checking on the status of a refund.

- Go to www.irs.gov/refunds.
- Download the free IRS2Go app to your smart phone and use it to check your refund status.
- Call the automated refund hotline at 1-800-829-1954.

Making a tax payment. The IRS uses the latest encryption technology so electronic payments are safe and secure. You can make electronic payments online, by phone, or from a mobile device. Paying electronically is quick, easy, and faster than mailing in a check or money order. Go to www.irs.gov/payments to make a payment using any of the following options.

- IRS Direct Pay (for individual taxpayers who have a checking or savings account).
- **Debit or credit card** (approved payment processors online or by phone).
- **Electronic Funds Withdrawal** (available during *e-file*).
- **Electronic Federal Tax Payment System** (best option for businesses; enrollment required).
- **Check or money order**.

IRS2Go provides access to mobile-friendly payment options like IRS Direct Pay, offering you a free, secure way to pay directly from your bank account. You can also make debit or credit card payments through an approved payment processor. Simply download IRS2Go from Google Play, the Apple App Store, or the Amazon Appstore, and make your payments anytime, anywhere.

What if I can't pay now? Click on the "Pay Your Tax Bill" icon on IRS.gov for more information about these additional options.

- Apply for an online payment agreement to meet your tax obligation in monthly installments if you cannot pay your taxes in full today. Once you complete the online process, you will receive immediate notification of whether your agreement has been approved.
- An offer in compromise allows you to settle your tax debt for less than the full amount you owe. Use the Offer in Compromise Pre-Qualifier to confirm your eligibility.

Checking the status of an amended return. Go to IRS.gov and click on the Tools tab and then Where's My Amended Return?

Understanding an IRS notice or letter. Enter "Understanding your notice" in the search box on IRS.gov to find additional information about your IRS notice or letter.

Visiting the IRS. Locate the nearest Taxpayer Assistance Center using the Office Locator tool on IRS.gov. Enter "office locator" in the search box. Or choose the "Contact Us" option on the IRS2Go app and search Local Offices. Before you visit, use the Locator tool to check hours and services available.

Watching IRS videos. The IRS Video portal www.irsvideos.gov contains video and audio presentations for individuals, small businesses, and tax professionals. You'll find video clips of tax topics, archived versions of panel discussions and Webinars, and audio archives of tax practitioner phone forums.

Getting tax information in other languages. For taxpayers whose native language is not English, we have the following resources available.

1. Taxpayers can find information on IRS.gov in the following languages.
   a. Spanish.
   b. Chinese.
   c. Vietnamese.
   d. Korean.
   e. Russian.
2. The IRS Taxpayer Assistance Centers provide over-the-phone interpreter service in over 170 languages, and the service is available free to taxpayers.

The Taxpayer Advocate Service 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 that helps taxpayers and protects taxpayer rights. Our job is to ensure that every taxpayer is treated fairly and that you know and understand your rights under the Taxpayer Bill of Rights.

What Can the Taxpayer Advocate Service Do For You?

We can help you resolve problems that you can't resolve with the IRS. And our service is free. If you qualify for our assistance, you will be assigned to one advocate who will work with you throughout the process and will do everything possible to resolve your issue. TAS can help you if:

- Your problem is causing financial difficulty for you, your family, or your business,
- You face (or your business is facing) an immediate threat of adverse action, or
- You've tried repeatedly to contact the IRS but no one has responded, or the IRS hasn't responded by the date promised.

How Can You Reach Us?

We have offices in every state, the District of Columbia, and Puerto Rico. Your local advocate's number is in your local directory and at *www.taxpayeradvocate.irs.gov*. You can also call us at 1-877-777-4778.

How Can You Learn About Your Taxpayer Rights?

The Taxpayer Bill of Rights describes ten basic rights that all taxpayers have when dealing with the IRS. Our Tax Toolkit at *www.taxpayeradvocate.irs.gov* can help you understand *what these rights mean to you* and how they apply. These are ***your*** rights. Know them. Use them.

How Else Does the Taxpayer Advocate Service Help Taxpayers?

TAS works to resolve large-scale problems that affect many taxpayers. If you know of one of these broad issues, please report it to us at *www.irs.gov/sams*.

Low Income Taxpayer Clinics

Low Income Taxpayer Clinics (LITCs) serve individuals whose income is below a certain level and need to resolve tax problems such as audits, appeals, and tax collection disputes. Some clinics can provide information about taxpayer rights and responsibilities in different languages for individuals who speak English as a second language. To find a clinic near you, visit *www.irs.gov/litc* or see IRS Pub. 4134, *Low Income Taxpayer Clinic List*.

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To help us develop a more useful index, please let us know if you have ideas for index entries. See "Comments and Suggestions" in the "Introduction" for the ways you can reach us.