

Selling Your Home

During summer months, many people sell their home and move to a new location. Many of those individuals will make a profit on the sale and still will not have to pay a single dime of additional income tax to the IRS.

Generally, you have made a profit if the selling price of your home is greater than the price you paid to purchase the home. That profit, considered a capital gain, is usually subject to income tax. However, under certain circumstances the law allows you to exclude all or part of that gain from your income – that is, you may not have to pay tax on the profit.

Individuals may be able to exclude up to \$250,000 of capital gain on the sale of their home, and married taxpayers filing joint returns may be able to exclude up to \$500,000. The exclusion may be claimed each time that you sell your main home, but generally no more often than once every two years.

To qualify, you must meet both the ownership and use tests.

- **Ownership Test:** During the 5-year period ending on the date of the sale, you must have owned the home for at least 2 years.
- **Use Test:** During the 5-year period ending on the date of the sale, you must have lived in the home as your main home at least 2 years.

If you and your spouse file a joint return and both meet the use test, you normally will be able to claim the exclusion for married couples even if only one of you meets the ownership test.

If you do not meet these tests, you may still be allowed to exclude a reduced amount of the gain realized on the sale of your home. But you must have sold the home for other specific reasons such as serious health issues, a change in your place of employment, or certain unforeseen circumstances such as a divorce or legal separation, natural or man-made disasters resulting in a casualty to your home, or an involuntary conversion of your home.

For sales after 2007, the maximum exclusion on the sale of a main home by an unmarried surviving spouse is \$500,000 if the sale occurs no later than 2 years after the date of the other spouse's death. However, this rule applies only if the requirements for joint filers relating to ownership and use were met immediately before the date of death, and during the 2-year period ending on the date of death, there was no sale or exchange of a main home by either spouse which qualified for the exclusion.

If you were on qualified official extended duty in the U.S. Armed Services, the Foreign Service, or the intelligence community, you may suspend the five-year test period for up to 10 years. You are on qualified extended duty when, for more than 90 days or for an indefinite period, you are:

- At a duty station that is at least 50 miles from your main home, or
- Residing under government orders in government housing.

Intelligence community members must serve on extended duty at a duty station that is located outside the United States.

If you are entitled to exclude the entire gain from the sale of your home, you do not need to report the gain on your federal tax return. However, if you are not entitled to exclude the entire amount of the gain, use Schedule D, Capital Gains and Losses, and Form 1040 to report the total gain, the portion that can be excluded, and the portion that is subject to capital gains tax.

For more information see IRS Publication 523, Selling Your Home, available at IRS.gov or by calling 800-TAX-FORM (800-829-3676).

Remember that for the genuine IRS Web site be sure to use .gov. Don't be confused by internet sites that end in .com, .net, .org or other designations instead of .gov. The address of the official IRS governmental Web site is www.irs.gov.