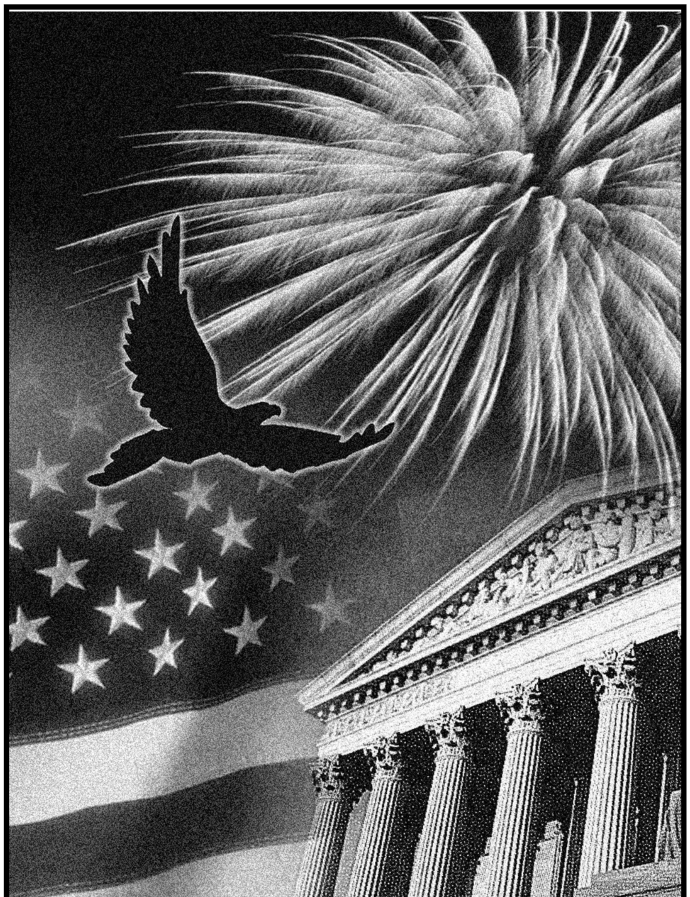
Department of the Treasury
Internal Revenue Service

Publication 523
Cat. No. 15044W

Selling Your Home

For use in preparing

2013 Returns



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Jan 05, 2014

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Future Developments

For the latest information about developments related to Publication 523, such as legislation enacted after it was published, go to *www.irs.gov/pub523*.

Reminders

Change of address. If you change your mailing address, be sure to notify the Internal Revenue Service (IRS) using Form 8822, Change of Address. Mail it to the Internal Revenue Service Center for your old address. (Addresses for the Service Centers are on the back of the form.)

Home sold with undeducted points. If you have not deducted all the points you paid to secure a mortgage on your old home, you may be able to deduct the remaining points in the year of sale. See *Points* in Publication 936, Home Mortgage Interest Deduction.

Photographs of missing children. The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. 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 your main home. In most cases, your main home is the one in which you live most of the time.

If you sold your main home in 2013, you may be able to exclude from income any gain up to a limit of $250,000 ($500,000 on a joint return in most cases). See Excluding the Gain, later. Generally, if you can exclude all the gain, you do not need to report the sale on your tax return.

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. You may also have to complete Form 4797, Sales of Business Property. See Reporting the Sale, later.

If you have a loss on the sale, you generally cannot deduct it on your return. However, you may need to report it. See Reporting the Sale, later.

The main topics in this publication are:

- Figuring gain or loss,
- Basis,
- Excluding the gain,
- Ownership and use tests, and
- Reporting the sale.

Other topics include:

- Business use or rental of home,
- Deducting taxes in the year of sale, and
- Recapturing a federal mortgage subsidy.

Net Investment Income Tax (NIIT). If any part of the gain on the sale of a home is not excluded under the rules discussed in this publication, it may be subject to the NIIT. For more details, see Form 8960, Net Investment Income Tax—Individuals, Estates, and Trusts, and its instructions.

Worksheets. Near the end of this publication you will find worksheets you can use to figure your gain (or loss) and your exclusion. Use Worksheet 1 to figure the adjusted basis of the home you sold. Use Worksheet 2 to figure the gain (or loss), the exclusion, and the taxable gain (if any) on the sale. If you do not qualify for the maximum exclusion, use Worksheet 3 to figure your reduced maximum exclusion.

Date of sale. If you received a Form 1099-S, Proceeds From Real Estate Transactions, the date of sale should be shown in box 1. If you did not receive this form, the date of sale is the earlier of (a) the date title transferred or (b) the date the economic burdens and benefits of ownership shifted to the buyer. In most cases, these dates are the same.

What is not covered in this publication. This publication does not cover the sale of rental property, second homes, or vacation homes. For information on how to report any gain or loss from those sales, see Publication 544, Sales and Other Dispositions of Assets.

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

You can write to us at the following address:

Internal Revenue Service
Tax Forms and Publications Division
1111 Constitution Ave. NW, IR-6526
Washington, DC 20224

We respond to many letters by telephone. Therefore, it would be helpful if you would include your daytime phone number, including the area code, in your correspondence.

You can send your comments from www.irs.gov/formspubs/. Click on “More Information” and then on “Comment on Tax Forms and Publications”.

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Tax questions. If you have a tax question, check the information available on IRS.gov or call 1-800-829-1040. We cannot answer tax questions sent to either of the above addresses.

Useful Items

You may want to see:

Publication

- ❏ **527** Residential Rental Property
- ❏ **530** Tax Information for Homeowners
- ❏ **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 D (Form 1040)** Capital Gains and Losses
- ❑ **982** Reduction of Tax Attributes Due to Discharge of Indebtedness
- ❑ **1040** U.S. Individual Income Tax Return
- ❑ **1040NR** U.S. Nonresident Alien Income Tax Return
- ❑ **1040X** Amended 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
- ❑ **8822** Change of Address
- ❑ **8828** Recapture of Federal Mortgage Subsidy
- ❑ **8939** Allocation of Increase in Basis for Property Acquired From a Decedent
- ❑ **8949** Sales and Other Dispositions of Capital Assets
- ❑ **W-2** Wage and Tax Statement

See *How To Get Tax Help*, near the end of this publication, for information about getting these publications and forms.

Main Home

This section explains the term "main home." Usually, the home you live in most of the time is your main home and can be a:

- House,
- Houseboat,
- Mobile home,
- Cooperative apartment, or
- Condominium.

To exclude gain under the rules in this publication, you in most cases must have owned and lived in the property as your main home for at least 2 years during the 5-year period ending on the date of sale.

Land. If you sell the land on which your main home is located, but not the house itself, you cannot exclude any gain you have from the sale of the land.

Example. You buy a piece of land and move your main home to it. Then, you sell the land on which your main home was located. This sale is not considered a sale of your main home, and you cannot exclude any gain on the sale of the land.

Vacant land. The sale of vacant land is not a sale of your main home unless:

- The vacant land is adjacent to land containing your home,
- You owned and used the vacant land as part of your main home,
- The separate sale of your home satisfies the requirements for exclusion and occurs within 2 years before or 2 years after the date of the sale of the vacant land, and
- The other requirements for excluding gain from the sale of a main home have been satisfied with respect to the vacant land.

If these requirements are met, the sale of the home and the sale of the vacant land are treated as one sale and only one maximum exclusion can be applied to any gain. See *Excluding the Gain*, later.

TIP *The destruction of your home is treated as a sale of your home. As a result, you may be able to meet these requirements if you sell vacant land used as a part of your main home within 2 years from the date of the destruction of your main home. For information, see Publication 547.*

More than one home. If you have more than one home, you can exclude gain only from the sale of your main home. You must include in income the gain from the sale of any other home. If you have two homes and live in each of them, your main home is ordinarily the one you live in most of the time during the year.

Example 1. You own two homes, one in New York and one in Florida. From 2009 through 2013, you live in the New York home for 7 months and in the Florida residence for 5 months of each year. In the absence of facts and circumstances indicating otherwise, the New York home is your main home. You would be eligible to exclude the gain from the sale of the New York home but not of the Florida home in 2013.

Example 2. You own a house, but you live in another house that you rent. The rented house is your main home.

Example 3. You own two homes, one in Virginia and one in New Hampshire. In 2009 and 2010, you lived in the Virginia home. In 2011 and 2012, you lived in the New Hampshire home. In 2013, you lived again in the Virginia home. Your main home in 2009, 2010, and 2013 is the Virginia home. Your main home in 2011 and 2012 is the New Hampshire home. You would be eligible to exclude gain from the sale of either home (but not both) in 2013.

Factors used to determine main home. In addition to the amount of time you live in each home, other factors are relevant in determining which home is your main home. Those factors include the following.

1. Your place of employment.
2. The location of your family members' main home.
3. Your mailing address for bills and correspondence.
4. The address listed on your:
   a. Federal and state tax returns,
   b. Driver's license,
   c. Car registration, and
   d. Voter registration card.
5. The location of the banks you use.
6. The location of recreational clubs and religious organizations of which you are a member.

Property used partly as your main home. If you use only part of the property as your main home, the rules discussed in this publication apply only to the gain or loss on the sale of that part of the property. For details, see *Business Use or Rental of Home*, later.

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.

Selling Price

The selling price is the total amount you receive for your home. It includes money and the fair market value of any other property or any other services you receive and all notes, mortgages or other debts assumed by the buyer as part of the sale.

Personal property. The selling price of your home does not include amounts you received for personal property sold with your home. Personal property is property that is not a permanent part of the home. Examples are furniture, draperies, rugs, a washer and dryer, and lawn equipment. Separately stated amounts you received for these items should not be shown on Form 1099-S (discussed later). Any gains from sales of personal property must be included in your income, but not as part of the sale of your home.

Payment by employer. You may have to sell your home because of a job transfer. If your employer pays you for a loss on the sale or for your selling expenses, do not include the payment as part of the selling price. Your employer will include it as wages in box 1 of your Form W-2 and you will include it in your income on Form 1040, line 7, or on Form 1040NR, line 8.

Option to buy. If you grant an option to buy your home and the option is exercised, add the amount you receive for the option to the selling price of your home. If the option is not exercised, you must report the amount as ordinary income in the year the option expires. Report this amount on Form 1040, line 21, or on Form 1040NR, line 21.

Form 1099-S. If you received Form 1099-S, box 2 (gross proceeds) should show the total amount you received for your home.

However, box 2 will not include the fair market value of any services or property other than cash or notes you received or will receive. Instead, box 4 will be checked to indicate your receipt or expected receipt of these items.

Amount Realized

The amount realized is the selling price minus selling expenses.

Selling expenses. Selling expenses include:

- Commissions,
- Advertising fees,
- Legal fees, and
- Loan charges paid by the seller, such as loan placement fees or “points.”

Adjusted Basis

While you owned your home, you may have made adjustments (increases or decreases) to the basis. This adjusted basis must be determined before you can figure gain or loss on the sale of your home. For information on how to figure your home's adjusted basis, see *Determining Basis*, later.

Amount of Gain or Loss

To figure the amount of gain or loss, compare the amount realized to the adjusted basis.

Gain on sale. If the amount realized is more than the adjusted basis, the difference is a gain and, except for any part you can exclude, generally is taxable.

Loss on sale. If the amount realized is less than the adjusted basis, the difference is a loss. Generally, a loss on the sale of your main home cannot be deducted.

Jointly owned home. If you and your spouse sell your jointly owned home and file a joint return, you figure your gain or loss as one taxpayer.

Separate returns. If you file separate returns, each of you must figure your own gain or loss according to your ownership interest in the home. Your ownership interest is generally determined by state law.

Joint owners not married. If you and a joint owner other than your spouse sell your jointly owned home, each of you must figure your own gain or loss according to your ownership interest in the home. Each of you applies the rules discussed in this publication on an individual basis.

Dispositions Other Than Sales

Some special rules apply to other dispositions of your main home.

Foreclosure or repossession. If your home was foreclosed on or repossessed, you have a disposition. See Publication 4681 to determine if you have ordinary income, gain, or loss.

More information. If part of a home is used for business or rental purposes, see *Foreclosures and Repossessions* in chapter 1 of Publication 544 for more information. Publication 544 has examples of how to figure gain or loss on a foreclosure or repossession.

Abandonment. If you abandon your home, see Publication 4681 to determine if you have ordinary income, gain, or loss.

Trading (exchanging) homes. If you trade your home for another home, treat the trade as a sale and a purchase.

Example. You owned and lived in a home with an adjusted basis of $41,000. A real estate dealer accepted your old home as a trade-in and allowed you $50,000 toward a new home priced at $80,000. This is treated as a sale of your old home for $50,000 with a gain of $9,000 ($50,000 – $41,000).

If the dealer had allowed you $27,000 and assumed your unpaid mortgage of $23,000 on your old home, your sales price would still be $50,000 (the $27,000 trade-in allowed plus the $23,000 mortgage assumed).

Transfer to spouse. If you transfer your home to your spouse or you transfer it to your former spouse incident to your divorce, you in most cases have no gain or loss (unless the *Exception*, discussed next, applies). This is true even if you receive cash or other consideration for the home. As a result, the rules explained in this publication do not apply.

If you owned your home jointly with your spouse and transfer your interest in the home to your spouse, or to your former spouse incident to your divorce, the same rule applies. You have no gain or loss.

Exception. These transfer rules do not apply if your spouse or former spouse is a nonresident alien. In that case, you generally will have a gain or loss.

More information. See *Property Settlements* in Publication 504, Divorced or Separated Individuals, for more information.

Involuntary conversion. 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, as explained later under *Special Situations* (see Home destroyed or condemned).

Determining Basis

You need to know your basis in your home to figure any gain or loss when you sell it. Your basis in your home is determined by how you got the home. Generally, your basis is its cost if you bought it or built it. If you got it in some other way (inheritance, gift, etc.), your basis is generally either its fair market value when you received it or the adjusted basis of the previous owner.

While you owned your home, you may have made adjustments (increases or decreases) to your home's basis. The result of these adjustments is your home's adjusted basis, which is used to figure gain or loss on the sale of your home.

To figure your adjusted basis, you can use Worksheet 1, near the end of this publication. Filled-in examples of that worksheet are included in the Comprehensive Examples, later.

Cost As Basis

The cost of property is the amount you paid for it in cash, debt obligations, other property, or services.

Purchase. If you bought your home, your basis is its cost to you. This includes the purchase price and certain settlement or closing costs. In most cases, your purchase price includes your down payment and any debt, such as a first or second mortgage or notes you gave the seller in payment for the home. If you build, or contract to build, a new home, your purchase price can include costs of construction, as discussed later.

Seller-paid points. If the person who sold you your home paid points on your loan, you may have to reduce your home's basis by the amount of the points, as shown in the following chart.

IF you bought your home...	THEN reduce your home's basis by the seller-paid points...
after 1990 but before April 4, 1994	only if you deducted them as home mortgage interest in the year paid.
after April 3, 1994	even if you did not deduct them.

Settlement fees or closing costs. When you bought your home, you may have paid settlement fees or closing costs in addition to the contract price of the property. You can include in your basis some of the settlement fees and closing costs you paid for buying the home, but not the fees and costs for getting a mortgage loan. A fee paid for buying the home is any fee you would have had to pay even if you paid cash for the home (that is, without the need for financing).

Settlement fees do not include amounts placed in escrow for the future payment of items such as taxes and insurance.

Some of the settlement fees or closing costs that you can include in your basis are:

1. Abstract fees (abstract of title fees),
2. Charges for installing utility services,
3. Legal fees (including fees for the title search and preparing the sales contract and deed),
4. Recording fees,
5. Survey fees,
6. Transfer or stamp taxes,
7. Owner's title insurance, and
8. Any amounts the seller owes that you agree to pay, such as:
   a. Certain real estate taxes (discussed later),
   b. Back interest,
   c. Recording or mortgage fees,
   d. Charges for improvements or repairs, and
   e. Sales commissions.

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

1. Fire insurance premiums,
2. Rent for occupancy of the house before closing,
3. Charges for utilities or other services related to occupancy of the house before closing,
4. Any fee or cost that you deducted as a moving expense (allowed for certain fees and costs before 1994),
5. Charges connected with getting a mortgage loan, such as:
   a. Mortgage insurance premiums (including funding fees connected with loans guaranteed by the Department of Veterans Affairs),
   b. Loan assumption fees,
   c. Cost of a credit report,
   d. Fee for an appraisal required by a lender, and
6. Fees for refinancing a mortgage.

Real estate taxes. Real estate taxes for the year you bought your home may affect your basis, as shown in the following chart.

<table>
<tr><th>IF...</th><th>AND...</th><th>THEN the taxes...</th></tr>
<tr><td rowspan="2">you pay taxes that the seller owed on the home up to the date of sale</td><td>the seller does not reimburse you</td><td>are added to the basis of your home.</td></tr>
<tr><td>the seller reimburses you</td><td>do not affect the basis of your home.</td></tr>
<tr><td rowspan="2">the seller pays taxes for you (taxes owed beginning on the date of sale)</td><td>you do not reimburse the seller</td><td>are subtracted from the basis of your home.</td></tr>
<tr><td>you reimburse the seller</td><td>do not affect the basis of your home.</td></tr>
</table>

Construction. If you contracted to have your house built on land you own, your basis is:

1. The cost of the land, plus
2. The amount it cost you to complete the house, including:
   a. The cost of labor and materials,
   b. Any amounts paid to a contractor,
   c. Any architect's fees,
   d. Building permit charges,
   e. Utility meter and connection charges, and
   f. 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 may have to reduce your basis by points the seller paid for you. For more information, see *Seller-paid points* and *Settlement fees or closing costs*, earlier.

Built by 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 you did not pay for.

Temporary housing. If a builder gave you temporary housing while your home was being finished, you must reduce your basis by the part of the contract price that was for the temporary housing. To figure the amount of the reduction, multiply the contract price by a fraction. The numerator is the value of the temporary housing, and the denominator is the sum of the value of the temporary housing plus the value of the new home.

Cooperative apartment. If you are a tenant-stockholder in a cooperative housing corporation, your basis in the cooperative apartment used as your home is usually the cost of your stock in the corporation. This may include your share of a mortgage on the apartment building.

Condominium. To determine your basis in a condominium apartment used as your home, use the same rules as for any other home.

Basis Other Than Cost

You must use a basis other than cost, such as adjusted basis or fair market value, if you received your home as a gift, inheritance, a trade, or from your spouse. These situations are discussed in the following pages. Also, the instructions for Worksheet 1 (near the end of the publication) address each of these issues.

Other special rules may apply in certain situations. If you converted the property, or some part of it, to business or rental use, see *Property Changed to Business or Rental Use*, in Publication 551.

Home received as gift. Use the following chart to find the basis of a home you received as a gift.

IF the donor's adjusted basis at the time of the gift was...	**THEN your basis is...**
more than the fair market value of the home at that time	the same as the donor's adjusted basis at the time of the gift. *Exception:* If using the donor's adjusted basis results in a loss when you sell the home, 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, you have neither gain nor loss.
equal to or less than the fair market value at that time, and you received the gift before 1977	the smaller of the: • donor's adjusted basis, plus any federal gift tax paid on the gift, or • the home's fair market value at the time of the gift.
equal to or less than the fair market value at that time, and you received the gift after 1976	the same as the donor's adjusted basis, plus the part of any federal gift tax paid that is due to the net increase in value of the home (explained next).

Fair market value. The fair market value of property at the time of the gift is the value of the property as appraised for purposes of the federal gift tax. If the gift was not subject to the federal gift tax, the fair market value is the value as appraised for the purposes of a state gift tax.

Part of federal gift tax due to net increase in value. Figure the part of the federal gift tax paid that is due to the net increase in value of the home by multiplying the total federal gift tax paid by a fraction. The numerator of the fraction is the net increase in the value of the home, and the denominator is the value of the home for gift tax purposes after reduction by any annual exclusion and marital or charitable deduction that applies to the gift. The net increase in the value of the home is its fair market value minus the donor's adjusted basis immediately before the gift.

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 Publication 555, Community Property.

CAUTION *If you are selling a home in which you acquired an interest from a decedent who died in 2010, see Publication 4895, Tax Treatment of Property Acquired From a Decedent Dying in 2010, to determine your basis.*

Home received as trade. If you acquired your home as a trade for other property, in most cases, the basis of your home is the fair market value (at the time of the trade) of the property you gave up. If you traded one home for another, you have made a sale and purchase. In that case, you may have a gain. See *Trading (exchanging) homes* under *Dispositions Other Than Sales*, earlier, for an example of figuring the gain.

Home received from spouse. If you received your home from your spouse or from your former spouse incident to your divorce, your basis in the home depends on the date of the transfer.

Transfers after July 18, 1984. If you received the home after July 18, 1984, there was no gain or loss on the transfer. In most cases, your basis in this home is the same as your spouse's (or former spouse's) adjusted basis just before you received it. This rule applies even if you received the home in exchange for cash, the release of marital rights, the assumption of liabilities, or other considerations.

If you owned a home jointly with your spouse and your spouse transferred his or her interest in the home to you, in most cases, your basis in the half interest received from your spouse is the same as your spouse's adjusted basis just before the transfer. This also applies if your former spouse transferred his or her interest in the home to you incident to your divorce. Your basis in the half interest you already owned does not change. Your new basis in the home is the total of these two amounts.

Transfers before July 19, 1984. If you received your home before July 19, 1984, in exchange for your release of marital rights, in most cases, your basis in the home is generally its fair market value at the time you received it.

More information. For more information on property received from a spouse or former spouse, see *Property Settlements* in Publication 504.

Involuntary conversion. If your home is destroyed or condemned, you may receive insurance proceeds or a condemnation award. If you acquired a replacement home with these proceeds, the basis is its cost decreased by any gain not recognized on the conversion under the rules explained in:

- Publication 547, in the case of a home that was destroyed, or
- Chapter 1 of Publication 544, in the case of a home that was condemned.

Example. A fire destroyed your home that you owned and used for only 6 months. The home had an adjusted basis of $80,000 and the insurance company paid you $130,000 for the loss. Your gain is $50,000 ($130,000 – $80,000). You bought a replacement home for $100,000. The part of your gain that is taxable is $30,000 ($130,000 – $100,000), the unspent part of the payment from the insurance company. The rest of the gain ($20,000) is not taxable, so that amount reduces your basis in the new home. The basis of the new home is figured as follows.

Cost of replacement home	$100,000
Minus: Gain not recognized	20,000
Basis of the replacement home	**$ 80,000**

More information. For more information about basis, see Publication 551.

Adjusted Basis

Adjusted basis is your cost or other basis increased or decreased by certain amounts.

To figure your adjusted basis, you can use Worksheet 1, found toward the end of this publication. Filled-in examples of that worksheet are included in *Comprehensive Examples*, later.

RECORDS **Recordkeeping.** You should keep records to prove your home's adjusted basis. Ordinarily, you must keep records for 3 years after the due date for filing your return for the tax year in which you sold your home. But if you sold a home before May 7, 1997, and postponed tax on any gain, the basis of that home affects the basis of the new home you bought. Keep records proving the basis of both homes as long as they are needed for tax purposes.

The records you should keep include:

- Proof of the home's purchase price and purchase expenses;
- Receipts and other records for all improvements, additions, and other items that affect the home's adjusted basis;
- Any worksheets or other computations you used to figure the adjusted basis of the home you sold, the gain or loss on the sale, the exclusion, and the taxable gain;
- Any Form 982 you filed to exclude any discharge of qualified principal residence indebtedness;
- Any Form 2119, Sale of Your Home, you filed to postpone gain from the sale of a previous home before May 7, 1997; and
- Any worksheets you used to prepare Form 2119, such as the Adjusted Basis of Home Sold Worksheet or the Capital Improvements Worksheet from the Form 2119 instructions, or other source of computations.

Increases to Basis

These include the following.

- Additions and other improvements that have a useful life of more than 1 year.
- Special assessments for local improvements.
- Amounts you spent after a casualty to restore damaged property.

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 other improvements to the basis of your property.

The following chart lists some other examples of improvements.

Examples of Improvements That Increase Basis

Keep for Your Records

Additions Bedroom Bathroom Deck Garage Porch Patio **Lawn & Grounds** Landscaping Driveway Walkway Fence Retaining wall Sprinkler system Swimming pool **Miscellaneous** Storm windows, doors New roof Central vacuum Wiring upgrades Satellite dish Security system	**Heating & Air Conditioning** Heating system Central air conditioning Furnace Duct work Central humidifier Filtration system **Plumbing** Septic system Water heater Soft water system Filtration system **Interior Improvements** Built-in appliances Kitchen modernization Flooring Wall-to-wall carpeting **Insulation** Attic Walls Floors Pipes and duct work

Improvements no longer part of home. Your home's adjusted basis does not include the cost of any improvements that are replaced and are no longer part of the home.

Example. You put wall-to-wall carpeting in your home 15 years ago. Later, you replaced that carpeting with new wall-to-wall carpeting. The cost of the old carpeting you replaced is no longer part of your home's adjusted basis.

Repairs. These maintain your home in good condition but do not add to its value or prolong its life. You do not add their cost to the basis of your property.

Examples. Repainting your house inside or outside, fixing your gutters or floors, repairing leaks or plastering, and replacing broken window panes are examples of repairs.

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.

Decreases to Basis

These include the following.

- Discharge of qualified principal residence indebtedness that was excluded from income (but not below zero). For details, see Publication 4681.
- Some or all of the cancellation of debt income that was excluded due to your bankruptcy or insolvency. For details, see Publication 4681.
- Gain you postponed from the sale of a previous home before May 7, 1997.
- Deductible casualty losses.
- Insurance payments you received or expect to receive for casualty losses.
- Payments you received for granting an easement or right-of-way.
- Depreciation allowed or allowable if you used your home for business or rental purposes.
- Energy-related credits allowed for expenditures made on the residence. (Reduce the increase in basis otherwise allowable for expenditures on the residence by the amount of credit allowed for those expenditures.)
- Adoption credit you claimed for improvements added to the basis of your home.
- Nontaxable payments from an adoption assistance program of your employer you used for improvements you added to the basis of your home.
- Energy conservation subsidy excluded from your gross income because you received it (directly or indirectly) from a public utility after 1992 to buy or install any energy conservation measure. An energy conservation measure is an installation or modification primarily designed either to reduce consumption of electricity or natural gas or to improve the management of energy demand for a home.
- District of Columbia first-time homebuyer credit allowed on the purchase of a principal residence in the District of Columbia.
- General sales taxes claimed as an itemized deduction on Schedule A (Form 1040) that were imposed on the purchase of personal property, such as a houseboat used as your home or a mobile home.

Discharges of qualified principal residence indebtedness. You may be able to exclude from gross income a discharge of qualified principal residence indebtedness. This exclusion applies to discharges made after 2006 and before 2014. If you choose to exclude this income, you must reduce (but not below zero) the basis of your principal residence by the amount excluded from gross income.

File Form 982 with your tax return. See the form's instructions for detailed information.

TIP *A decrease in basis due to a discharge of qualified principal residence indebtedness that is excluded from income occurs only if you retain ownership of the principal residence after a discharge. In most cases, this would occur in a refinancing or a restructuring of the mortgage.*

Excluding the Gain

You may qualify to exclude from your income all or part of any gain from the sale of your main home. This means that, if you qualify, you will not have to pay tax on the gain up to the limit described under Maximum Exclusion, next. To qualify, you must meet the ownership and use tests described later.

You can choose not to take the exclusion by including the gain from the sale in your gross income on your tax return for the year of the sale. This choice can be made (or revoked) at any time before the expiration of a 3-year period beginning on the due date of your return (not including extensions) for the year of the sale.

You can use Worksheet 2 (near the end of this publication) to figure the amount of your exclusion and your taxable gain, if any.

CAUTION *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 Publication 505, Tax Withholding and Estimated Tax.*

Maximum Exclusion

You can exclude up to $250,000 of the gain (other than gain allocated to periods of nonqualified use) on the sale of your main home if all of the following are true.

- You meet the ownership test.
- You meet the use test.
- During the 2-year period ending on the date of the sale, you did not exclude gain from the sale of another home.

For details on gain allocated to periods of nonqualified use, see Nonqualified Use, later.

If you and another person owned the home jointly but file separate returns, each of you can exclude up to $250,000 of gain from the sale of your interest in the home if each of you meets the three conditions just listed.

You may be able to exclude up to $500,000 of the gain (other than gain allocated to periods of nonqualified use) on the sale of your main home if you are married and file a joint return and meet the requirements listed in the discussion of the special rules for joint returns, later, under Married Persons.

Ownership and Use Tests

To claim the exclusion, you must meet the ownership and use tests. This means that during the 5-year period ending on the date of the sale, you must have:

- Owned the home for at least 2 years (the ownership test), and
- Lived in the home as your main home for at least 2 years (the use test).

Exception. If you owned and lived in the property as your main home for less than 2 years, you can still claim an exclusion in some cases. However, the maximum amount you may be able to exclude will be reduced. See *Reduced Maximum Exclusion*, later.

Example 1—home owned and occupied for at least 2 years. Mya bought and moved into her main home in September 2011. She sold the home at a gain in October 2013. During the 5-year period ending on the date of sale in October 2013, she owned and lived in the home for more than 2 years. She meets the ownership and use tests.

Example 2—ownership test met but use test not met. Ayden bought a home, lived in it for 6 months, moved out, and never occupied the home again. He later sold the home for a gain in June 2013. He owned the home during the entire 5-year period ending on the date of sale. He meets the ownership test but not the use test. He cannot exclude any part of his gain on the sale unless he qualified for a reduced maximum exclusion (explained later).

Period of Ownership and Use

The required 2 years of ownership and use during the 5-year period ending on the date of the sale do not have to be continuous nor do they both have to occur at the same time.

You meet the tests if you can show that you owned and lived in the property as your main home for either 24 full months or 730 days (365 × 2) during the 5-year period ending on the date of sale.

Example. Naomi bought and moved into a house in July 2009. She lived there for 13 months and then moved in with a friend. She later moved back into her house and lived there for 12 months until she sold it in August 2013. Naomi meets the ownership and use tests because, during the 5-year period ending on the date of sale, she owned the house for more than 2 years and lived in it for a total of 25 (13 + 12) months.

Temporary absence. Short temporary absences for vacations or other seasonal absences, even if you rent out the property during the absences, are counted as periods of use. The following examples assume that the reduced maximum exclusion (discussed later) does not apply to the sales.

Example 1. David Johnson, who is single, bought and moved into his home on February 1, 2011. Each year during 2011 and 2012, David left his home for a 2-month summer vacation. David sold the house on March 1, 2013. Although the total time David lived in his home is less than 2 years (21 months), he meets the use requirement and may exclude gain. The 2-month vacations are short temporary absences and are counted as periods of use in determining whether David used the home for the required 2 years.

Example 2. Professor Paul Beard, who is single, bought and moved into a house in December 2010, went abroad for a 1-year sabbatical leave in January 2012, returned to the house in January 2013, and sold it at a gain in February 2013. Because his leave was not a short temporary absence, he cannot include the period of leave to meet the 2-year use test. He cannot exclude any part of his gain because he did not use the residence for the required 2 years.

Ownership and use tests met at different times. You can meet the ownership and use tests during different 2-year periods. However, you must meet both tests during the 5-year period ending on the date of the sale.

Example. Beginning in 2002, Helen Jones lived in a rented apartment. The apartment building was later converted to condominiums, and she bought her same apartment on December 3, 2010. In 2011, Helen became ill and on April 14 of that year she moved to her daughter's home. On July 12, 2013, while still living in her daughter's home, she sold her condominium.

Helen can exclude gain on the sale of her condominium because she met the ownership and use tests during the 5-year period from July 13, 2008, to July 12, 2013, the date she sold the condominium. She owned her condominium from December 3, 2010, to July 12, 2013 (more than 2 years). She lived in the property from July 13, 2008 (the beginning of the 5-year period), to April 14, 2011 (more than 2 years).

The time Helen lived in her daughter's home during the 5-year period can be counted toward her period of ownership, and the time she lived in her rented apartment during the 5-year period can be counted toward her period of use.

Cooperative apartment. If you sold stock as a tenant-shareholder in a cooperative housing corporation, the ownership and use tests are met if, during the 5-year period ending on the date of sale, you:

- Owned the stock for at least 2 years, and
- Lived in the house or apartment that the stock entitled you to occupy as your main home for at least 2 years.

Exceptions to Ownership and Use Tests

The following sections contain exceptions to the ownership and use tests for certain taxpayers.

Exception for individuals with a disability. There is an exception to the use test if:

- You become physically or mentally unable to care for yourself, and
- You owned and lived in your home as your main home for a total of at least 1 year during the 5-year period before the sale of your home.

Under this exception, you are considered to live in your home during any time within the 5-year period that you own the home and live in a facility (including a nursing home) licensed by a state or political subdivision to care for persons in your condition.

If you meet this exception to the use test, you still have to meet the 2-out-of-5-year ownership test to claim the exclusion.

Previous home destroyed or condemned. For the ownership and use tests, you add the time you owned and lived in a previous home that was destroyed or condemned to the time you owned and lived in the replacement home on whose sale you wish to exclude gain. This rule applies if any part of the basis of the home you sold depended on the basis of the destroyed or condemned home (see *Involuntary Conversions* in Publication 551). Otherwise, you must have owned and lived in the same home for 2 of the 5 years before the sale to qualify for the exclusion.

Members of the uniformed services or Foreign Service, employees of the intelligence community, or employees or volunteers of the Peace Corps. You can choose to have the 5-year test period for ownership and use suspended during any period you or your spouse serve on qualified official extended duty (defined later) as a member of the uniformed services or Foreign Service of the United States, or as an employee of the intelligence community. You can choose to have the 5-year test period for ownership and use suspended during any period you or your spouse serve outside the United States either as an employee of the Peace Corps on qualified official extended duty (defined later) or as an enrolled volunteer or volunteer leader of the Peace Corps. This means that you may be able to meet the 2-year use test even if, because of your service, you did not actually live in your home for at least the required 2 years during the 5-year period ending on the date of sale.

If this helps you qualify to exclude gain, you can choose to have the 5-year test period suspended by filing a return for the year of sale that does not include the gain.

Example. John bought and moved into a home in 2005. 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 2013. 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.

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, 1997. She used it as her main home until August 31, 2000. On September 1, 2000, she went on qualified official extended duty with the Navy. She did not live in the house again before selling it on July 31, 2013. Mary chooses to use the entire 10-year suspension period. Therefore, the suspension period would extend back from July 31, 2013, to August 1, 2003, and the 5-year test period would extend back to August 1, 1998. During that period, Mary owned the house all 5 years and lived in it as her main home from August 1, 1998, until August 31, 2000, 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.

Uniformed services. The uniformed services are:

- The Armed Forces (the Army, Navy, Air Force, Marine Corps, and Coast Guard),
- The commissioned corps of the National Oceanic and Atmospheric Administration, and
- The commissioned corps of the Public Health Service.

Foreign Service member. For purposes of the choice to suspend the 5-year test period for ownership and use, you are a member of the Foreign Service if you are any of the following.

- A Chief of mission.
- An Ambassador at large.
- A member of the Senior Foreign Service.
- A Foreign Service officer.
- Part of the Foreign Service personnel.

Employee of the intelligence community. For purposes of the choice to suspend the 5-year test period for ownership and use, you are an employee of the intelligence community if you are an employee of any of the following.

- 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.

- The National Reconnaissance Office and any other office within the Department of Defense for the collection of specialized national intelligence through reconnaissance programs.
- Any of the intelligence elements of the Army, the Navy, the Air Force, the Marine Corps, the Federal Bureau of Investigation, the Department of Treasury, the Department of Energy, and the Coast Guard.
- The Bureau of Intelligence and Research of the Department of State.
- Any of the elements of the Department of Homeland Security concerned with the analyses of foreign intelligence information.

Qualified official extended duty. You are on qualified official extended duty if you are on extended duty while:

- Serving at a duty station at least 50 miles from your main home, or
- Living in Government quarters under Government orders.

You are on extended duty when you are called or ordered to active duty for a period of more than 90 days or for an indefinite period.

Married Persons

If you and your spouse file a joint return for the year of sale and one spouse meets the ownership and use tests, you can exclude up to $250,000 of the gain. (But see *Special rules for joint returns*, next.)

Special rules for joint returns. You can exclude up to $500,000 of the gain on the sale of your main home if all of the following are true.

- You are married and file a joint return for the year.
- Either you or your spouse meets the ownership test.
- Both you and your spouse meet the use test.
- During the 2-year period ending on the date of the sale, neither you nor your spouse excluded gain from the sale of another home.

If either spouse does not satisfy all these requirements, the maximum exclusion that can be claimed by the couple is the total of the maximum exclusions that each spouse would qualify for if not married and the amounts were figured separately. For this purpose, each spouse is treated as owning the property during the period that either spouse owned the property.

Example 1—one spouse sells a home. Emily sells her home in June 2013 for a gain of $300,000. She marries Jamie later in the year. She meets the ownership and use tests, but Jamie does not. Emily can exclude up to $250,000 of gain on a separate or joint return for 2013. The $500,000 maximum exclusion for certain joint returns does not apply because Jamie does not meet the use test.

Example 2—each spouse sells a home. The facts are the same as in *Example 1* except that Jamie also sells a home in 2013 for a gain of $200,000 before he marries Emily. He meets the ownership and use tests on his home, but Emily does not. Emily can exclude $250,000 of gain and Jamie can exclude $200,000 of gain on the respective sales of their individual homes. However, Emily cannot use Jamie's unused exclusion to exclude more than $250,000 of gain. Therefore, Emily and Jamie must recognize $50,000 of gain on the sale of Emily's home. The $500,000 maximum exclusion for certain joint returns does not apply because Emily and Jamie do not both meet the use test for the same home.

Sale of main home by surviving spouse. If your spouse died and you did not remarry before the date of sale, you are considered to have owned and lived in the property as your main home during any period of time when your spouse owned and lived in it as a main home.

If you meet all of the following requirements, you may qualify to exclude up to $500,000 of any gain from the sale or exchange of your main home.

- The sale or exchange took place after 2008.
- The sale or exchange took place no more than 2 years after the date of death of your spouse.
- You have not remarried.
- You and your spouse met the use test at the time of your spouse's death.
- You or your spouse met the ownership test at the time of your spouse's death.
- Neither you nor your spouse excluded gain from the sale of another home during the last 2 years before the date of death.

The ownership and use tests were described earlier.

Example. Harry owned and used a house as his main home since 2009. Harry and Wilma married on July 1, 2013, and from that date they used Harry's house as their main home. Harry died on August 15, 2013, and Wilma inherited the property. Wilma sold the property on September 1, 2013, at which time she had not remarried. Although Wilma owned and used the house for less than 2 years, Wilma is considered to have satisfied the ownership and use tests because her period of ownership and use includes the period that Harry owned and used the property before death.

Home transferred from spouse. If your home was transferred to you by your spouse (or former spouse if the transfer was incident to divorce), you are considered to have owned it during any period of time when your spouse owned it.

Use of home after divorce. You are considered to have used property as your main home during any period when:

- You owned it, and

- Your spouse or former spouse is allowed to live in it under a divorce or separation instrument and uses it as his or her main home.

Reduced Maximum Exclusion

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. This applies to those who:

- Fail to meet the ownership and use tests, or
- Have used the exclusion within 2 years of selling their current home.

In both cases, to qualify for a reduced exclusion, the sale of your main home must be due to one of the following reasons.

- A change in place of employment.
- Health.
- Unforeseen circumstances.

Qualified individual. For purposes of the reduced maximum exclusion, a qualified individual is any of the following.

- You.
- Your spouse.
- A co-owner of the home.
- A person whose main home is the same as yours.

Primary reason for sale. One of the three reasons above will be considered to be the primary reason you sold your home if either (1) or (2) is true.

1. You qualify under a "safe harbor." This is a specific set of facts and circumstances that, if applicable, qualifies you to claim a reduced maximum exclusion. Safe harbors corresponding to the reasons listed above are described later.
2. A safe harbor does not apply, but you can establish, based on facts and circumstances, that the primary reason for the sale is a change in place of employment, health, or unforeseen circumstances.
   Factors that may be relevant in determining your primary reason for sale include whether:
   a. Your sale and the circumstances causing it were close in time,
   b. The circumstances causing your sale occurred during the time you owned and used the property as your main home,
   c. The circumstances causing your sale were not reasonably foreseeable when you began using the property as your main home,
   d. Your financial ability to maintain the property became materially impaired,
   e. The suitability of the property as your main home materially changed, and
   f. During the time you owned the property, you used it as your home.

Change in Place of Employment

You may qualify for a reduced exclusion if the primary reason for the sale of your main home is a change in the location of employment of a qualified individual.

Employment. For this purpose, employment includes the start of work with a new employer or continuation of work with the same employer. It also includes the start or continuation of self-employment.

Distance safe harbor. A change in place of employment is considered to be the reason you sold your home if:

- The change occurred during the period you owned and used the property as your main home, and
- The new place of employment is at least 50 miles farther from the home you sold than was the former place of employment (or, if there was no former place of employment, the distance between your new place of employment and the home sold is at least 50 miles).

Example. Justin was unemployed and living in a townhouse in Florida he had owned and used as his main home since 2012. He got a job in North Carolina and sold his townhouse in 2013. Because the distance between Justin's new place of employment and the home he sold is at least 50 miles, the sale satisfies the conditions of the distance safe harbor. Justin's sale of his home is considered to be because of a change in place of employment, and he is entitled to claim a reduced maximum exclusion of gain from the sale.

Health

The sale of your main home is because of health if your primary reason for the sale is:

- To obtain, provide, or facilitate the diagnosis, cure, mitigation, or treatment of disease, illness, or injury of a qualified individual, or
- To obtain or provide medical or personal care for a qualified individual suffering from a disease, illness, or injury.

The sale of your home is not because of health if the sale merely benefits a qualified individual's general health or well-being.

For purposes of this reason, a qualified individual includes, in addition to the individuals listed earlier under *Qualified individual*, any of the following family members of these individuals.

- Parent, grandparent, stepmother, stepfather.

- Child, grandchild, stepchild, adopted child, eligible foster child.
- Brother, sister, stepbrother, stepsister, half-brother, half-sister.
- Mother-in-law, father-in-law, brother-in-law, sister-in-law, son-in-law, or daughter-in-law.
- Uncle, aunt, nephew, niece, or cousin.

Example. In 2012, Chase and Lauren, spouses, bought a house that they used as their main home. Lauren's father has a chronic disease and is unable to care for himself. In 2013, Chase and Lauren sold their home in order to move into Lauren's father's house to provide care for him. Because the primary reason for the sale of their home was to provide care for Lauren's father, Chase and Lauren are entitled to a reduced maximum exclusion.

Doctor's recommendation safe harbor. Health is considered to be the reason you sold your home if, for one or more of the reasons listed at the beginning of this discussion, a doctor recommends a change of residence.

Unforeseen Circumstances

The sale of your main home is because of an unforeseen circumstance if your primary reason for the sale is the occurrence of an event that you could not reasonably have anticipated before buying and occupying that home. You are not considered to have an unforeseen circumstance if the primary reason you sold your home was that you preferred to get a different home or because your finances improved.

Specific event safe harbors. Unforeseen circumstances are considered to be the reason for selling your home if any of the following events occurred while you owned and used the property as your main home.

1. An involuntary conversion of your home, such as when your home is destroyed or condemned.
2. Natural or man-made disasters or acts of war or terrorism resulting in a casualty to your home, whether or not your loss is deductible.
3. In the case of qualified individuals (listed earlier under *Qualified individual*):
   a. Death,
   b. Unemployment (if the individual is eligible for unemployment compensation),
   c. A change in employment or self-employment status that results in the individual's inability to pay reasonable basic living expenses (listed under *Reasonable basic living expenses*, later) for his or her household,
   d. Divorce or legal separation under a decree of divorce or separate maintenance, or
   e. Multiple births resulting from the same pregnancy.
4. An event the IRS determined to be an unforeseen circumstance in published guidance of general applicability. For example, the IRS determined the September 11, 2001, terrorist attacks to be an unforeseen circumstance.

Reasonable basic living expenses. Reasonable basic living expenses for your household include the following.

- Amounts spent for food.
- Amounts spent for clothing.
- Housing and related expenses.
- Medical expenses.
- Transportation expenses.
- Tax payments.
- Court-ordered payments.
- Expenses reasonably necessary to produce income.

Any of these amounts spent to maintain an affluent or luxurious standard of living are not reasonable basic living expenses.

Nonqualified Use

Gain from the sale or exchange of the main home is not excludable from income if it is allocable to periods of nonqualified use. Nonqualified use means any period after 2008 where neither you nor your spouse (or your former spouse) used the property as a main home, with certain exceptions (see next).

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) use the property as a main home;
2. Any period (not to exceed an aggregate period of 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 such other unforeseen circumstances as may be specified by the IRS.

Calculation. To figure the portion of the gain allocated to the period of nonqualified use, multiply the gain (net of any depreciation allowed or allowable on the property for periods after May 6, 1997) by the following fraction:

$$\frac{\text{Total nonqualified use during the period of ownership after 2008}}{\text{Total period of ownership}}$$

This calculation can be found in Worksheet 2, line 10, later in this publication.

For examples of this calculation, see *Business Use or Rental of Home*, next.

Business Use or Rental of Home

You may be able to exclude gain from the sale of a home you have used for business or to produce rental income if you meet the ownership and use tests.

Example 1. On May 23, 2007, Amy, who is unmarried for all years in this example, bought a house. She moved in on that date and lived in it until May 31, 2009, when she moved out of the house and put it up for rent. The house was rented from June 1, 2009, to March 31, 2011. Amy claimed depreciation deductions in 2009 through 2011 totaling $10,000. Amy moved back into the house on April 1, 2011, and lived there until she sold it on January 31, 2013, for a gain of $200,000. During the 5-year period ending on the date of the sale (January 31, 2008–January 31, 2013), Amy owned and lived in the house for more than 2 years as shown in the following table.

Five-Year Period	Used as Home	Used as Rental
1/31/08 – 5/31/09	16 months	
6/01/09 – 3/31/11		22 months
4/01/11 – 1/31/13	22 months	
	38 months	22 months

During the period Amy owned the house (2,080 days), her period of nonqualified use was 668 days. Because the gain attributable to periods of nonqualified use is $60,990, Amy can exclude $129,010 of her gain, as shown on Worksheet 2.

Example 2. William owned and used a house as his main home from 2007 through 2010. On January 1, 2011, he moved to another state. He rented his house from that date until April 30, 2013, when he sold it. During the 5-year period ending on the date of sale (May 1, 2008-April 30, 2013), William owned and lived in the house for more than 2 years. Because it was rental property at the time of the sale, he must report the sale on Form 4797. Because the period of nonqualified use does not include any part of the 5-year period after the last date William lived in the house, he has no period of nonqualified use. Because he met the ownership and use tests, he can exclude gain up to $250,000. However, he cannot exclude the part of the gain equal to the depreciation he claimed or could have claimed for renting the house, as explained next.

Depreciation after May 6, 1997. 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. If you can show by adequate records or other evidence that the depreciation allowed was less than the amount allowable, then you may limit the amount of gain recognized to the depreciation allowed.

Unrecaptured section 1250 gain. This is the part of any long-term capital gain from the sale of your home that is due to depreciation and cannot be excluded. To figure the amount of unrecaptured section 1250 gain to be reported on Schedule D (Form 1040), you must also take into account certain gains or losses from the sale of property other than your home. Use the Unrecaptured Section 1250 Gain Worksheet in the Schedule D instructions for this purpose.

Property Used Partly for Business or Rental

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.

Part of Home Used for Business or Rental

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 cannot exclude the part of any gain equal to any depreciation allowed or allowable after May 6, 1997. See *Depreciation after May 6, 1997*, earlier.

Example 1. Ray sold his main home in 2013 at a $30,000 gain. He has no gains or losses from the sale of property other than the gain from the sale of his home. He meets the ownership and use tests to exclude the gain from his income. However, he used part of the home as a business office in 2012 and claimed $500 depreciation. Because the business office was part of his home (not separate from it), he does not have to allocate the gain on the sale between the business part of the property and the part used as a home. In addition, he does not have to report any part of the gain on Form 4797. Because Ray was entitled to take a depreciation deduction, he must recognize $500 of the gain as unrecaptured section 1250 gain. He reports his gain, exclusion, and the taxable gain of $500 on Form 8949 and Schedule D (Form 1040).

Example 2. The facts are the same as in *Example 1* except that Ray was not entitled to claim depreciation for

Worksheet 2. **Taxable Gain on Sale of Home—Completed Example 1 for Amy**

Keep for Your Records

Part 1. Gain or (Loss) on Sale

1.	Selling price of home	**1.**	
2.	Selling expenses (including commissions, advertising and legal fees, and seller-paid loan charges)	**2.**	
3.	Subtract line 2 from line 1. This is the amount realized	**3.**	
4.	Adjusted basis of home sold (from Worksheet 1, line 13)	**4.**	
5.	**Gain or (loss)** on the sale. Subtract line 4 from line 3. If this is a loss, stop here	**5.**	200,000

Part 2. Exclusion and Taxable Gain

6.	Enter any depreciation allowed or allowable on the property for periods after May 6, 1997. If none, enter -0-	**6.**	10,000
7.	Subtract line 6 from line 5. If the result is less than zero, enter -0-	**7.**	190,000
8.	Aggregate number of days of nonqualified use after 2008. If none, enter -0-. If line 8 is equal to zero, skip to line 12 and enter the amount from line 7 on line 12	**8.**	668
9.	Number of days taxpayer owned the property	**9.**	2,080
10.	Divide the amount on line 8 by the amount on line 9. Enter the result as a decimal (rounded to at least 3 places). But do not enter an amount greater than 1.00	**10.**	0.321
11.	Gain allocated to nonqualified use. (Line 7 multiplied by line 10)	**11.**	60,990
12.	Gain eligible for exclusion. Subtract line 11 from line 7	**12.**	129,010
13.	If you qualify to exclude gain on the sale, enter your maximum exclusion (see Maximum Exclusion). If you qualify for a reduced maximum exclusion, enter the amount from Worksheet 3, line 7. If you do not qualify to exclude gain, enter -0-	**13.**	250,000
14.	**Exclusion.** Enter the smaller of line 12 or line 13	**14.**	129,010
15.	**Taxable gain.** Subtract line 14 from line 5. Report your taxable gain as described under Reporting the Sale. **If the amount on line 6 is more than zero, complete line 16**	**15.**	70,990
16.	Enter the **smaller** of line 6 or line 15. Enter this amount on line 12 of the Unrecaptured Section 1250 Gain Worksheet in the instructions for Schedule D (Form 1040)	**16.**	10,000

the business use of his home. Since Ray did not claim any depreciation, he can exclude the entire $30,000 gain.

Separate Part of Property Used for Business or Rental

You may have used part of your property as your home and a separate part of it for business or to produce rental income. 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.

Use test not met for business part. You cannot 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 do not meet the use test for the 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 upon its sale between the business or rental part and the part used as a home. See Example 5, later, for an example of how to do this. You must report the sale of the business or rental part on Form 4797.

Example 3. In 2009, Lew bought property that consisted of a house, a stable, and 35 acres. He used the house and 7 acres as his main home and used the stable and 28 acres in his business for the next 4 years. He sold the entire property in 2013 at a $10,000 gain. Lew met the ownership and use tests for the house but did not meet the use test for the stable. Since the business part was separate from his home, Lew must allocate the basis of the property and the amount realized between the part of the property he used for his home and the part he used for his business. Lew reports the gain on the business part of his property on Form 4797. He can exclude the gain on the part of the property that was his main home.

Example 4. In 2008, Mary bought property that consisted of a house, a barn, and 2 acres. Mary used the house and 2 acres as her main home and used the barn in her antiques business. In 2012, Mary moved out of the house and rented it to tenants. She claimed depreciation on the house while renting it in 2012 and 2013. She continued to use the barn in her business. Mary sold the entire property in 2013 for a $21,000 gain. Since the barn is separate from her home, Mary must allocate the basis of the property and amount realized between the residential and business parts of the property. She reports the entire gain from the barn on Form 4797 since she did not meet the use test for the barn. She must also report gain on the home to the extent of the depreciation she claimed for the rental.

Use test met for business part (with business use in year of sale). If you used a separate part of your property for business or to produce rental income in the year of sale, you should treat the sale of the property as the sale of two properties, even if you met the use test for the business or rental part. You must report the sale of the business or rental part on Form 4797.

To determine the amounts to report on Form 4797, you must divide your selling price, selling expenses, and basis between the part of the property used for business or rental and the separate part used as your home. In the same way, if you qualify to exclude any of the gain on the business or rental part of your property, also divide your maximum exclusion between that part of the property and the separate part used as your home. If you use Worksheet 2 (near the end of this publication) to figure your exclusion and taxable gain from each part, fill out a separate Part 2 of the worksheet for each.

Excluding gain on the business or rental part of your property. In most cases, you can exclude gain on the part of your property used for business or rental if you owned and lived in that part as your main home for at least 2 years during the 5-year period ending on the date of the sale. If you used a separate Worksheet 2, Part 2, to figure the exclusion for the business or rental part, fill it out only through line 14. Then fill out Form 4797. Enter the exclusion for the business or rental part on Form 4797 as explained in the Form 4797 instructions. (Also see Example 5, later.)

If you have any taxable gain due to depreciation, first fill out the Unrecaptured Section 1250 Gain Worksheet in the Schedule D (Form 1040) instructions. Enter the result on Schedule D. To figure your tax, complete the Schedule D Tax Worksheet in the Schedule D instructions (do not use the Qualified Dividends and Capital Gain Tax Worksheet in the Form 1040 instructions).

Example 5. In January 2009, you bought and moved into a 4-story townhouse. In December 2011, you converted the basement level, which has a separate entrance, into a separate apartment by installing a kitchen and bathroom and removing the interior stairway that led from the basement to the upper floors. After you completed the conversion, your townhouse had a rental unit that was separate from the part of your house used as your home. You lived in the first, second, and third levels of the townhouse and rented the basement level to tenants until December 2013. You claimed the allowable depreciation of $2,000 for the basement apartment. You sold the entire townhouse in December 2013 for a $16,000 gain. Your records show the following.

Purchase price	$ 96,000
Improvements (kitchen and bath in rental)	4,000
Depreciation (on rental)	2,000
Selling price	124,000
Selling expenses	10,000

Because you met the ownership and use tests for both the rental apartment and your residence, you can claim an exclusion for both parts. However, because they are separate units, you must allocate your basis, selling price, and selling expenses between them. You start by finding the adjusted basis of each part. You determine that three-fourths (75%) of your purchase price was for the part used as your home and one-fourth (25%) was for the rental part.

	Home (3/4)	Rental (1/4)
Purchase price	$72,000	$24,000
Plus: Improvements	-0-	4,000
Minus: Depreciation	-0-	2,000
Adjusted basis	$72,000	$26,000

Next, to figure the gain on each part, fill out a separate Part 1 of Worksheet 2 for each part, dividing your selling price and selling expenses between the home and the rental.

Worksheet 2. Gain or (Loss), Exclusion, and Taxable Gain on Sale of Home

	Home (3/4)	Rental (1/4)
Part 1. Gain or (Loss) on Sale		
1. Selling price of home	$93,000	$31,000
2. Selling expenses	7,500	2,500
3. Subtract line 2 from line 1. This is the amount realized	$85,500	$28,500
4. Adjusted basis of home sold	72,000	26,000
5. Subtract line 4 from line 3. This is the gain or (loss)	$13,500	$ 2,500

Then, to figure your taxable gain and exclusion, fill out a separate Part 2 of Worksheet 2 for each part, dividing your maximum exclusion between the two parts. You are single, so the maximum exclusion is $250,000.

	Home (3/4)	Rental (1/4)
Part 2. Exclusion and Taxable Gain		
6. Depreciation allowed or allowable after May 6, 1997 . . .	$-0-	$2,000
7. Subtract line 6 from line 5	13,500	500
8. Aggregate number of days of nonqualified use after 2008 . . .	-0-	-0-
9. Number of days taxpayer owned the property	N/A	N/A
10. Divide the amount on line 8 by the amount on line 9. Enter the result as a decimal (rounded to at least 3 places). But do not enter an amount greater than 1.00	-0-	-0-
11. Gain allocated to nonqualified use (line 7 multiplied by line 10)	-0-	-0-
12. Gain eligible for exclusion. Subtract line 11 from line 7 . . .	13,500	500
13. Maximum exclusion	$187,500	$62,500
14. Exclusion (smaller of line 12 or line 13)	13,500	500
15. Taxable gain (line 5 minus line 14)	-0-	*
16. Smaller of line 6 or line 15	-0-	*

* Lines 15 and 16 do not need to be filled out for the rental part.

Report the gain from the rental part, $2,500, in Part III of Form 4797. Enter your $500 exclusion as a loss (in parentheses) on Form 4797, line 2, column (g), and enter "Section 121 exclusion" on that line. Your taxable gain from the rental part is $2,000 ($2,500 – $500).

Use test met for business part (with no business use in year of sale). If you have used a separate part of your property for business or to produce rental income (though not in the year of sale) but meet the use test for both the business or rental part and the part you use as a home, you do not need to treat the transaction as the sale of two properties. Also, you do not need to file Form 4797. In most cases, you can exclude gain on the entire property.

Example 6. Assume the same facts as in Example 5, except that in March 2013, you combined the two separate dwelling units by eliminating the basement kitchen and building a new interior stairway to the upper floors. You then used the entire townhouse as your main home for the rest of 2013. Because the entire townhouse was used as your main home for at least 2 years during the 5-year period ending on the date of the sale, you report the gain, $16,000, and the allowable exclusion ($14,000), in Part II Form 8949, and in Part II of Schedule D (Form 1040). Since your $2,000 taxable gain is from depreciation, it is unrecaptured section 1250 gain; enter it on line 12 of the Unrecaptured Section 1250 Gain Worksheet in the Schedule D (Form 1040) instructions. You have no gains or losses from the sale of property other than the gain from the sale of your home, so you also enter $2,000 on lines 13 and 18 of the worksheet and on line 19 of Schedule D. Then figure your tax using the Schedule D Tax Worksheet.

Reporting the Sale

Do not report the 2013 sale of your main home on your tax return unless:

- You have a gain and do not qualify to exclude all of it,
- You have a gain and choose not to exclude it, or
- You received Form 1099-S.

If you have a gain that you cannot or choose not to exclude, if you received a Form 1099-S, or if you have a deductible loss, report the sale on your tax return. 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. Report the proceeds from the sale (Worksheet 2, line 1) in column (d) and the cost or other basis (Worksheet 2, line 4) in column (e). If there are any selling expenses, enter "E" in column (f) and the necessary adjustment in column (g). See the Instructions for Form 8949.

If you can exclude some or all of your gain on the sale of your main home, enter "H" in column (f). Enter the amount of the excluded (nontaxable) gain as a negative number (in parenthesis) in column (g). See the Instructions for Form 8949.

If you have a loss on the sale of your main home for which you received a Form 1099-S, you must report the sale on Form 8949 even though the loss is not deductible. Enter "L" in column (f) and enter the amount of the nondeductible loss as a positive number in column (g). See the Instructions for Form 8949.

If you used the home for business or to produce rental income, you may have to use Form 4797 to report the sale of the business or rental part (or the sale of the entire property if used entirely for business or rental). See Business Use or Rental of Home, earlier, and the Instructions for Form 4797.

Installment sale. Some sales are made under arrangements that provide for part or all of the selling price to be paid in a later year. These sales are called "installment sales." If you finance the buyer's purchase of your home yourself, instead of having the buyer get a loan or mortgage from a bank, you probably have an installment sale. You may be able to report the part of the gain you cannot exclude on the installment basis.

Use Form 6252, Installment Sale Income, to report the sale. Enter your exclusion (line 14 of Worksheet 2) on line 15 of Form 6252.

Seller-financed mortgage. If you sell your home and hold a note, mortgage, or other financial agreement, the payments you receive in most cases consist of both interest and principal. You must separately report as interest income the interest you receive as part of each payment. If the buyer of your home uses the property as a main or second home, you must also report the name, address, and social security number (SSN) of the buyer on line 1 of Schedule B (Form 1040A or Form 1040), Interest and Ordinary Dividends. The buyer must give you his or her SSN, and you must give the buyer your SSN. Failure to meet these requirements may result in a $50 penalty for each failure. If either you or the buyer does not have and is not eligible to get an SSN, see the next discussion.

Individual taxpayer identification number (ITIN). If either you or the buyer of your home is a nonresident or resident alien who does not have and is not eligible to get an SSN, the IRS will issue you (or the buyer) an ITIN. To apply for an ITIN, file Form W-7, Application for IRS Individual Taxpayer Identification Number, with the IRS.

If you have to include the buyer's SSN on your return and the buyer is an alien who does not have and cannot get an SSN, enter the buyer's ITIN. If you have to give an SSN to the buyer and you are an alien who does not have and cannot get one, give the buyer your ITIN.

An ITIN is for tax use only. It does not entitle the holder to social security benefits or change the holder's employment or immigration status under U.S. law.

More information. For more information on installment sales, see Publication 537, Installment Sales.

Comprehensive Examples

Example 1. Peter and Betty Clark, who are married and file a joint return, bought a home in 1969. (They did not postpone the gain on the sale of their previous home.) They lived in it as their main home until they sold it in February 2013. The Clarks can exclude gain on the sale of their home because they owned and lived in it for at least 2 years of the 5-year period ending on the date of sale.

Their records show the following.

Original cost	$ 40,000
Legal fees for title search	250
Improvements (roof)	2,000
Selling price	395,000
Selling expenses, including commission	25,000

The Clarks use Worksheet 1 to figure the adjusted basis of the home they sold ($42,250). They use Worksheet 2 to figure the gain on the sale ($327,750) and the amount of their exclusion ($327,750). Their completed Worksheets 1 and 2 follow.

Because the Clarks are married and file a joint return for the year, they qualify to exclude the full amount of their gain and the settlement agent does not file or issue them a Form 1099-S. Because they do not receive a Form 1099-S and they choose to exclude the gain, they do not report the sale of the home on their tax return.

Worksheet 1. **Adjusted Basis of Home Sold—Illustrated Example 1 for Peter and Betty Clark**

Keep for Your Records

Caution: *See the Worksheet 1 Instructions before you use this worksheet.*

1.	Enter the purchase price of the home sold. (If you filed Form 2119 when you originally acquired that home to postpone gain on the sale of a previous home before May 7, 1997, enter the adjusted basis of the new home from that Form 2119.)			**1.**	$40,000
2.	Seller-paid points for home bought after 1990 (see *Seller-paid points*). Do not include any seller-paid points you already subtracted to arrive at the amount entered on line 1			**2.**	
3.	Subtract line 2 from line 1			**3.**	40,000
4.	Settlement fees or closing costs (see *Settlement fees or closing costs*). If line 1 includes the adjusted basis of the new home from Form 2119, skip lines 4a–4g and 5; go to line 6.				
a.	Abstract and recording fees	**4a.**			
b.	Legal fees (including fees for title search and preparing documents)	**4b.**	250		
c.	Survey fees	**4c.**			
d.	Title insurance	**4d.**			
e.	Transfer or stamp taxes	**4e.**			
f.	Amounts that the seller owed that you agreed to pay (back taxes or interest, recording or mortgage fees, and sales commissions)	**4f.**			
g.	Other	**4g.**			
5.	Add lines 4a through 4g			**5.**	250
6.	Cost of additions and improvements. Do not include any additions and improvements included on line 1			**6.**	2,000
7.	Special tax assessments paid for local improvements, such as streets and sidewalks			**7.**	
8.	Other increases to basis			**8.**	
9.	Add lines 3, 5, 6, 7, and 8			**9.**	42,250
10.	Depreciation allowed or allowable, related to the business use or rental of the home	**10.**			
11.	Other decreases to basis (see *Decreases to Basis*), Do not include any postponed gain that reduced the adjusted basis of the new home reported from Form 2119 on line 1	**11.**			
12.	Add lines 10 and 11			**12.**	
13.	**Adjusted basis of home sold**. Subtract line 12 from line 9. Enter here and on Worksheet 2, line 4			**13.**	$42,250

Worksheet 2. **Taxable Gain on Sale of Home—Illustrated Example 1 for Peter and Betty Clark**

Keep for Your Records

Part 1. Gain or (Loss) on Sale			
1.	Selling price of home	**1.**	$395,000
2.	Selling expenses (including commissions, advertising and legal fees, and seller-paid loan charges)	**2.**	25,000
3.	Subtract line 2 from line 1. This is the amount realized	**3.**	370,000
4.	Adjusted basis of home sold (from Worksheet 1, line 13)	**4.**	42,250
5.	**Gain or (loss)** on the sale. Subtract line 4 from line 3. If this is a loss, stop here	**5.**	327,750
Part 2. Exclusion and Taxable Gain			
6.	Enter any depreciation allowed or allowable on the property for periods after May 6, 1997. If none, enter -0-	**6.**	-0-
7.	Subtract line 6 from line 5. If the result is less than zero, enter -0-	**7.**	327,750
8.	Aggregate number of days of nonqualified use after 2008. If none, enter -0-. If line 8 is equal to zero, skip to line 12 and enter the amount from line 7 on line 12	**8.**	-0-
9.	Number of days taxpayer owned the property	**9.**	
10.	Divide the amount on line 8 by the amount on line 9. Enter the result as a decimal (rounded to at least 3 places). But do not enter an amount greater than 1.00	**10.**	
11.	Gain allocated to nonqualified use. (Line 7 multiplied by line 10)	**11.**	
12.	Gain eligible for exclusion. Subtract line 11 from line 7	**12.**	327,750
13.	If you qualify to exclude gain on the sale, enter your maximum exclusion (see *Maximum Exclusion*). If you qualify for a reduced maximum exclusion, enter the amount from Worksheet 3, line 7. If you do not qualify to exclude gain, enter -0-	**13.**	500,000
14.	**Exclusion.** Enter the smaller of line 12 or line 13	**14.**	327,750
15.	**Taxable gain.** Subtract line 14 from line 5. Report your taxable gain as described under *Reporting the Sale*. **If the amount on line 6 is more than zero, complete line 16**	**15.**	-0-
16.	Enter the **smaller** of line 6 or line 15. Enter this amount on line 12 of the Unrecaptured Section 1250 Gain Worksheet in the instructions for Schedule D (Form 1040)	**16.**	-0-

Example 2. The facts are the same as in *Example 1*, except that Peter and Betty Clark sold their home for $695,000. Their gain on the sale is $627,750. Because they are married, meet the ownership and use tests, have no period of non-qualified use, and file a joint return for the year, they can exclude $500,000 of the gain.

Worksheet 1 remains the same as shown in *Example 1*. Their completed Worksheet 2 is shown next.

The Clarks report the sale of their home on Form 8949 and Schedule D (Form 1040). On their Form 8949, Part II, they report their selling price of $695,000 in column (d), and their adjusted basis of $42,250 in column (e). Because the adjustments they enter in column (g) include selling expenses (Code E) and excluded gain (Code H), they enter “EH” in column (f). In column (g) they enter $525,000 (the sum of their exclusion, $500,000, and their selling expenses, $25,000) as a negative number. Because their realized gain is $627,750 and they exclude $500,000, they enter $127,750 in column (h).

On their Schedule D (Form 1040), line 10, the Clarks include the selling price of $695,000 in column (d), their adjusted basis of $42,250 in column (e), their adjustments of $525,000 as a negative number in column (g), and their recognized gain of $127,750 in column (h).

Worksheet 2. **Taxable Gain on Sale of Home—Illustrated Example 2 for Peter and Betty Clark**

Keep for Your Records

Part 1. Gain or (Loss) on Sale			
1.	Selling price of home	**1.**	$695,000
2.	Selling expenses (including commissions, advertising and legal fees, and seller-paid loan charges)	**2.**	25,000
3.	Subtract line 2 from line 1. This is the amount realized	**3.**	670,000
4.	Adjusted basis of home sold (from Worksheet 1, line 13)	**4.**	42,250
5.	**Gain or (loss)** on the sale. Subtract line 4 from line 3. If this is a loss, stop here	**5.**	627,750
Part 2. Exclusion and Taxable Gain			
6.	Enter any depreciation allowed or allowable on the property for periods after May 6, 1997. If none, enter -0-	**6.**	-0-
7.	Subtract line 6 from line 5. If the result is less than zero, enter -0-	**7.**	627,750
8.	Aggregate number of days of nonqualified use after 2008. If none, enter -0-. If line 8 is equal to zero, skip to line 12 and enter the amount from line 7 on line 12	**8.**	-0-
9.	Number of days taxpayer owned the property	**9.**	
10.	Divide the amount on line 8 by the amount on line 9. Enter the result as a decimal (rounded to at least 3 places). But do not enter an amount greater than 1.00	**10.**	
11.	Gain allocated to nonqualified use. (Line 7 multiplied by line 10)	**11.**	
12.	Gain eligible for exclusion. Subtract line 11 from line 7	**12.**	627,750
13.	If you qualify to exclude gain on the sale, enter your maximum exclusion (see *Maximum Exclusion*). If you qualify for a reduced maximum exclusion, enter the amount from Worksheet 3, line 7. If you do not qualify to exclude gain, enter -0-	**13.**	500,000
14.	**Exclusion.** Enter the smaller of line 12 or line 13	**14.**	500,000
15.	**Taxable gain.** Subtract line 14 from line 5. Report your taxable gain as described under *Reporting the Sale*. **If the amount on line 6 is more than zero, complete line 16**	**15.**	127,750
16.	Enter the **smaller** of line 6 or line 15. Enter this amount on line 12 of the Unrecaptured Section 1250 Gain Worksheet in the instructions for Schedule D (Form 1040)	**16.**	-0-

Example 3. Emily White, a single person, bought a home on May 1, 2001. She lived in the home until May 31, 2011, when she moved out and put it up for rent. Emily rented her home from June 1, 2011, until May 31, 2012. She moved back into the home and lived there until she sold it on January 11, 2013. She has no other gains or losses from the sale or exchange of any other property.

Emily can exclude gain on the sale of her home because she owned and lived in the home for at least 2 years of the 5-year period ending on the date of the sale.

Emily's records show the following.

Original cost	$ 50,000
Legal fees for title search	750
Back taxes paid for prior owner	1,500
Improvements (deck)	2,000
Selling price	195,000
Selling expenses, including commission	15,000
Depreciation claimed after May 6, 1997	1,791

Emily uses Worksheet 1 to figure the adjusted basis of the home she sold, $52,459. She uses Worksheet 2 to figure the gain on the sale, $127,541, and the amount of her exclusion, $115,061. Emily cannot exclude $1,791, the part of her gain equal to the depreciation claimed while the home was rented, nor can she exclude $10,689, the part of her gain allocated to nonqualified use.

Emily's completed Worksheet 1 appears next. Her completed Worksheet 2 follows.

Emily reports the sale in Part II of Form 8949 and Part II of Schedule D (Form 1040). On her Form 8949, Part II, she checks Box F. On line 1, she reports her selling price of $195,000 in column (d) and her adjusted basis of $52,459 in column (e). In column (g), she reports the sum of her exclusion and her selling expenses ($130,061) as a negative number. Because the adjustments she enters in column (g) include her selling expenses (Code E) and her exclusion (Code H), she enters "EH" in column (f). Because her realized gain is $127,541 and her exclusion is $115,061, she enters $12,480 as her recognized gain in column (h).

On her Schedule D (Form 1040), line 10, she enters her selling price of $195,000 in column (d), her adjusted basis of $52,549 in column (e), her adjustments of $130,061 as a negative number in column (g), and her recognized gain of $12,480 in column (h).

She enters $1,791 on line 12 of the Unrecaptured Section 1250 Gain Worksheet in the Schedule D (Form 1040) instructions. She has no gains or losses from the sale of property other than the gain from the sale of her home. Therefore, she also enters $1,791 on lines 13 and 18 of the worksheet and on line 19 of Schedule D. She then figures her tax using the Schedule D Tax Worksheet in the Schedule D (Form 1040) instructions.

Worksheet 1. **Adjusted Basis of Home Sold—Illustrated Example 3 for Emily White**

Keep for Your Records

Caution: *See the Worksheet 1 Instructions before you use this worksheet.*

1.	Enter the purchase price of the home sold. (If you filed Form 2119 when you originally acquired that home to postpone gain on the sale of a previous home before May 7, 1997, enter the adjusted basis of the new home from that Form 2119.)		**1.**	$50,000
2.	Seller-paid points for home bought after 1990 (see Seller-paid points). Do not include any seller-paid points you already subtracted to arrive at the amount entered on line 1		**2.**	
3.	Subtract line 2 from line 1		**3.**	50,000
4.	Settlement fees or closing costs (see Settlement fees or closing costs). If line 1 includes the adjusted basis of the new home from Form 2119, skip lines 4a–4g and 5; go to line 6			
a.	Abstract and recording fees	**4a.**		
b.	Legal fees (including fees for title search and preparing documents)	**4b.** 750		
c.	Survey fees	**4c.**		
d.	Title insurance	**4d.**		
e.	Transfer or stamp taxes	**4e.**		
f.	Amounts that the seller owed that you agreed to pay (back taxes or interest, recording or mortgage fees, and sales commissions)	**4f.** 1,500		
g.	Other	**4g.**		
5.	Add lines 4a through 4g		**5.**	2,250
6.	Cost of additions and improvements. Do not include any additions and improvements included on line 1		**6.**	2,000
7.	Special tax assessments paid for local improvements, such as streets and sidewalks		**7.**	
8.	Other increases to basis		**8.**	
9.	Add lines 3, 5, 6, 7, and 8		**9.**	54,250
10.	Depreciation allowed or allowable, related to the business use or rental of the home	**10.** 1,791		
11.	Other decreases to basis (see Decreases to Basis). Do not include any postponed gain that reduced the adjusted basis of the new home reported from Form 2119 on line 1	**11.**		
12.	Add lines 10 and 11		**12.**	1,791
13.	**Adjusted basis of home sold**. Subtract line 12 from line 9. Enter here and on Worksheet 2, line 4		**13.**	$52,459

Worksheet 2. **Taxable Gain on Sale of Home—Illustrated Example 3 for Emily White**

Keep for Your Records

Part 1. Gain or (Loss) on Sale

1.	Selling price of home	**1.**	$195,000
2.	Selling expenses (including commissions, advertising and legal fees, and seller-paid loan charges)	**2.**	15,000
3.	Subtract line 2 from line 1. This is the amount realized	**3.**	180,000
4.	Adjusted basis of home sold (from Worksheet 1, line 13)	**4.**	52,459
5.	**Gain or (loss)** on the sale. Subtract line 4 from line 3. If this is a loss, stop here	**5.**	127,541

Part 2. Exclusion and Taxable Gain

6.	Enter any depreciation allowed or allowable on the property for periods after May 6, 1997. If none, enter -0-	**6.**	1,791
7.	Subtract line 6 from line 5. If the result is less than zero, enter -0-	**7.**	125,750
8.	Aggregate number of days of nonqualified use after 2008. If none, enter -0-. If line 8 is equal to zero, skip to line 12 and enter the amount from line 7 on line 12	**8.**	365
9.	Number of days taxpayer owned the property	**9.**	4,272
10.	Divide the amount on line 8 by the amount on line 9. Enter the result as a decimal (rounded to at least 3 places). But do not enter an amount greater than 1.00	**10.**	.085
11.	Gain allocated to nonqualified use. (Line 7 multiplied by line 10)	**11.**	10,689
12.	Gain eligible for exclusion. Subtract line 11 from line 7	**12.**	115,061
13.	If you qualify to exclude gain on the sale, enter your maximum exclusion (see *Maximum Exclusion*). If you qualify for a reduced maximum exclusion, enter the amount from Worksheet 3, line 7. If you do not qualify to exclude gain, enter -0-	**13.**	250,000
14.	**Exclusion.** Enter the smaller of line 12 or line 13	**14.**	115,061
15.	**Taxable gain.** Subtract line 14 from line 5. Report your taxable gain as described under *Reporting the Sale*. **If the amount on line 6 is more than zero, complete line 16**	**15.**	12,480
16.	Enter the **smaller** of line 6 or line 15. Enter this amount on line 12 of the Unrecaptured Section 1250 Gain Worksheet in the instructions for Schedule D (Form 1040)	**16.**	$1,791

Special Situations

The situations that follow may affect your exclusion.

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 Publication 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 rental purposes. This can also occur if you used your main home partly for business or 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*.

Expatriates. You cannot claim the exclusion if the expatriation tax applies to you. The expatriation tax applies to certain U.S. citizens who have renounced their citizenship (and to certain long-term residents who have ended their residency). For more information about the expatriation tax, see chapter 4 of Publication 519, U.S. Tax Guide for Aliens.

Home destroyed or condemned. If your home was destroyed or condemned, any gain (for example, because of insurance proceeds you received) qualifies for the exclusion.

Any part of the gain that cannot be excluded (because it is more than the maximum exclusion) can be postponed under the rules explained in:

- Publication 547, in the case of a home that was destroyed, or
- Publication 544, chapter 1, in the case of a home that was condemned.

Sale of remainder interest. Subject to the other rules in this publication, you can choose to exclude gain from the sale of a remainder interest in your home. If you make this choice, you cannot choose to exclude gain from your sale of any other interest in the home that you sell separately.

Exception for sales to related persons. You cannot exclude gain from the sale of a remainder interest in your home to a related person. Related persons include your brothers, sisters, half-brothers, half-sisters, spouse, ancestors (parents, grandparents, etc.), and lineal descendants (children, grandchildren, etc.). Related persons also include certain corporations, partnerships, trusts, and exempt organizations.

Deducting Taxes in the Year of Sale

When you sell your main home, treat real estate and transfer taxes on that home as discussed in this section.

Real estate taxes. You and the buyer must deduct the real estate taxes on your home for the year of sale according to the number of days in the real property tax year (the period to which the tax relates) that each owned the home.

- You are treated as paying the taxes up to, but not including, the date of sale. You can deduct these taxes as an itemized deduction on Schedule A (Form 1040) in the year of sale. It does not matter what part of the taxes you actually paid.
- The buyer is treated as paying the taxes beginning with the date of sale.

If the buyer paid your share of the taxes (or any delinquent taxes you owed), the payment increases the selling price of your home. The buyer adds the amount paid to his or her basis in the property.

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 1, 2013. They sold the home on May 7, 2013. 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 2013 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.

Form 1099-S. If the person responsible for closing the sale (in most cases the settlement agent) must file Form 1099-S, the information reported on the form to you and the IRS must include (in box 5) the part of any real estate tax charged to the buyer. If you actually paid the taxes for the year of sale, you must subtract the amount shown in box 5 of Form 1099-S from the amount you paid. The result is the amount you can deduct as an itemized deduction.

More information. For more information about real estate taxes, see Publication 530.

Transfer taxes. You cannot deduct transfer taxes, stamp taxes, and other incidental taxes and charges on the sale of a home as itemized deductions. However, if you pay these amounts as the seller of the property, they are expenses of the sale and reduce the amount you realize on the sale. If you pay these amounts as the buyer, include them in your cost basis of the property.

Recapturing (Paying Back) a Federal Mortgage Subsidy

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.

Loans subject to recapture rules. The recapture applies to loans that:

1. Came from the proceeds of qualified mortgage bonds, or
2. Were based on mortgage credit certificates.

The recapture also applies to assumptions of these loans.

Federal subsidy benefit. If you received a mortgage loan from the proceeds of a tax-exempt bond, you received the benefit of a lower interest rate than was customarily charged on other mortgage loans. If you received a mortgage credit certificate with your mortgage loan, you were able to reduce your federal income taxes by a mortgage interest credit. Both of these benefits are federal mortgage subsidies.

Sale or other disposition. The sale or other disposition of your home includes an exchange, involuntary conversion, or any other disposition.

For example, if you give away your home (other than to your spouse or ex-spouse incident to divorce), you are considered to have sold or disposed of it. You figure your recapture tax as if you had sold your home for its fair market value on the date you gave it away.

When recapture applies. Recapture of the federal mortgage subsidy applies only if you meet both of the following conditions.

- You sell or otherwise dispose of your home at a gain within the first 9 years after the date you close your mortgage loan.
- Your income for the year of disposition is more than that year's adjusted qualifying income for your family size for that year (related to the income requirements a person must meet to qualify for the federally subsidized program).

When recapture does not apply. Recapture does not apply in any of the following situations.

- Your mortgage loan was a qualified home improvement loan (QHIL) of not more than $15,000 used for alterations, repairs, and improvements that protect or improve the basic livability or energy efficiency of your home.
- Your mortgage loan was a QHIL of not more than $150,000 in the case of a QHIL used to repair damage from Hurricane Katrina to homes in the hurricane disaster area; a QHIL funded by a qualified mortgage bond that is a qualified Gulf Opportunity Zone Bond; or a QHIL for an owner-occupied home in the Gulf Opportunity Zone (GO Zone), Rita GO Zone, or Wilma GO Zone. For more information, see Publication 4492, Information for Taxpayers Affected by Hurricanes Katrina, Rita, and Wilma. Also see Publication 4492-B, Information for Affected Taxpayers in the Midwestern Disaster Areas.
- The home is disposed of as a result of your death.
- You dispose of the home more than 9 years after the date you closed your mortgage loan.
- You transfer the home to your spouse, or to your former spouse incident to a divorce, where no gain is included in your income.
- You dispose of the home at a loss.
- Your home is destroyed by a casualty, and you replace it on its original site within 2 years after the end of the tax year when the destruction happened. The replacement period is extended for main homes destroyed in a federally declared disaster area, a Midwestern disaster area, the Kansas disaster area,

and in the Hurricane Katrina disaster area. For more information, see *Replacement Period* in Publication 547.

- You refinance your mortgage loan (unless you later meet the conditions listed previously under *When recapture applies*).

Notice of amounts. At or near the time of settlement of your mortgage loan, you should receive a notice that provides the federally subsidized amount and other information you will need to figure your recapture tax.

How to figure and report the recapture. The recapture tax is figured on Form 8828. If you sell your home and your mortgage loan is subject to the recapture rules, you must file Form 8828 even if you do not owe a recapture tax. Attach Form 8828 to your Form 1040. For more information, see Form 8828 and its instructions.

Recapture of First-Time Homebuyer Credit

Recapture of 2008 first-time homebuyer credit. If you claimed the first-time homebuyer credit for a home you purchased in 2008, you may have to recapture all or a portion of the amount you claimed. For a home purchased in 2008, you must repay the first-time homebuyer credit over a period of 15 years, starting in 2010. If your home ceases to be your main home before the end of the 15-year period, you generally must include all remaining annual installments as additional tax on the tax return for that year. Your home ceases to be your main home if you sell the home, convert the home to business or rental property use, or the home is destroyed, condemned, or disposed of under the threat of condemnation. In the event of a sale or other conversion you will need to file Form 5405 with your tax return. In the case of the sale of the principal residence to a person who is not related to the taxpayer, the recapture does not exceed the amount of gain, if any, on that sale. Solely for purposes of figuring this gain limitation, reduce the basis by the amount of the credit that has not been repaid.

Example. Dan and Pat purchased a home in 2008 for $200,000 and received a first-time homebuyer credit of $7,500. They repaid a total of $1,500 as an additional tax on their 2010, 2011, and 2012 returns ($500, or 1/15th of $7,500, for each of 2010, 2011, and 2012). They sold the home in 2013 to an unrelated person for $195,000. Because they sold their home in 2013, they must repay the balance of the credit on their 2013 return. However, since they sold the home to an unrelated person, the amount they must repay is limited to the gain on the sale. In order to calculate the gain they must reduce the adjusted basis of the home by the amount of the credit they have not yet repaid. The amount of the credit they have not yet repaid is $6,000 ($7,500 − $1,500). Thus, they must reduce their basis in the home to $194,000 ($200,000 − $6,000). Therefore, the gain (for purposes of limiting the amount of credit they must repay on their 2013 return) is $1,000 ($195,000 − $194,000). They must report the $1,000 as an additional tax on their 2013 return(s).

CAUTION *Adjusted basis is reduced by the amount of the unrecaptured first-time homebuyer credit only for purposes of figuring how much of the credit must be recaptured. Do not use this basis for figuring gain or for reporting basis or gain on Schedule D (Form 1040) or Form 8949.*

Recapture of the post-2008 first-time homebuyer credit. If you claimed the first-time homebuyer credit for a home you purchased after 2008, the credit is not required to be repaid unless your home ceases to be your main home within 36 months of the date of purchase. See the Instructions for Form 5405 for additional information.

Exceptions. If one of the following applies, you may not have to recapture the first-time homebuyer credit.

- Death.
- Involuntary conversion (see definition under the section *Dispositions Other Than Sales*, earlier).
- Transfers between spouses or incident to divorce.
- You are a member of the uniformed services, an employee of the intelligence community, or a member of the Foreign Service of the United States on qualified official extended duty service.

TIP *For details, see Form 5405 and its instructions.*

For more information and assistance, see IRS.gov and click on “Tools” to access the “First-Time Homebuyer Credit Account Look-up” tool.

Worksheets

The worksheets on the following pages are provided to help you figure the adjusted basis of your home; your gain or (loss), exclusion, and taxable gain on the sale of your home; and the reduced maximum exclusion. Keep any completed worksheets with your tax records; do not submit them with your tax return.

Worksheet 1 Instructions. **Adjusted Basis of Home Sold** *Keep for Your Records*

If you use Worksheet 1 to figure the adjusted basis of your home, follow these instructions. 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.

IF...		**THEN...**
you inherited your home from a decedent who died either before or after 2010 or from a decedent who died in 2010 and whose executor did not file Form 8939	1	skip lines 1–4 of the worksheet.
	2	find your basis using the rules under *Home received as inheritance*. Enter this amount on line 5.
	3	fill out lines 6–13.
you received your home as a gift	1	read *Home received as gift* and enter on lines 1 and 3 of the worksheet either the donor's adjusted basis or the home's fair market value at the time of the gift, whichever is appropriate.
	2	if you can add any federal gift tax to your basis, enter that amount on line 5.
	3	fill out lines 6–13.
you received your home as a trade for other property	1	enter on line 1 of the worksheet the fair market value of the other property at the time of the trade. (But if you received your home as a trade for your previous home before May 7, 1997, and had a gain on the trade that you postponed using Form 2119, enter on line 1 of the worksheet the adjusted basis of the new home from that Form 2119.)
	2	fill out lines 2–13.
you built your home	1	add the purchase price of the land and the cost of building the home. See *Construction*. Enter that total on line 1 of the worksheet. (However, if you filed a Form 2119 to postpone gain on the sale of a previous home before May 7, 1997, enter on line 1 of the worksheet the adjusted basis of the new home from that Form 2119.)
	2	fill out lines 2–13.
you received your home from your spouse after July 18, 1984	1	skip lines 1–4 of the worksheet.
	2	enter on line 5 your spouse's adjusted basis in the home just before you received it.
	3	fill out lines 6–13, including adjustments to basis only for events after the transfer.
you owned a home jointly with your spouse, who transferred his or her interest in the home to you after July 18, 1984		fill out one worksheet, including adjustments to basis for events both before and after the transfer.
you received your home from your spouse before July 19, 1984	1	skip lines 1–4 of the worksheet.
	2	enter on line 5 the home's fair market value at the time you received it.
	3	fill out lines 6–13, including adjustments to basis only for events after the transfer.
you owned a home jointly with your spouse, who transferred his or her interest in the home to you before July 19, 1984	1	fill out lines 1–13 of the worksheet, including adjustments to basis only for events before the transfer.
	2	multiply the amount on line 13 by 50% (.50) to get the adjusted basis of your half-interest at the time of the transfer.
	3	multiply the fair market value of the home at the time of the transfer by 50% (.50). In most cases, this is the basis of the half-interest that your spouse owned.
	4	add the amounts from steps 2 and 3 and enter the total on line 5 of a **second** worksheet.
	5	complete lines 6–13 on the second worksheet, including adjustments to basis only for events after the transfer.
you owned your home jointly with a nonspouse	1	fill out lines 1–13 of the worksheet.
	2	multiply the amount on line 13 by your percentage of ownership to get the adjusted basis of your part-interest.

IF...		THEN...
you owned your home jointly with your spouse who died before 2010 and before the sale	1	fill out lines 1–13 of the worksheet, including adjustments to basis only for events before your spouse's death.
	2	multiply the amount on line 13 by 50% (.50) to get the adjusted basis of your half-interest on the date of death.
	3	multiply the fair market value on the date of death (or later alternate valuation used for estate or inheritance tax) by 50% (.50). This is the basis for your spouse's half-interest.
	4	add the amounts from steps 2 and 3 and enter the total on line 5 of a **second** worksheet.
	5	complete lines 6–13 on the second worksheet, including adjustments to basis only for events after your spouse's death.
you owned your home jointly with your spouse who died before 2010 and before the sale, and your permanent legal home is in a community property state	1	skip lines 1–4 of the worksheet.
	2	enter the basis of the home on line 5. In most cases, this is the total fair market value of the home at the time of death. (See Community property.)
	3	fill out lines 6–13, including adjustments to basis only for events after your spouse's death.
you owned your home jointly with a nonspouse who died before 2010 and before the sale	1	fill out lines 1–13 of the worksheet, including adjustments to basis only for events before the co-owner's death.
	2	multiply the amount on line 13 by your percentage of ownership to get the adjusted basis of your part-interest on the date of death.
	3	multiply the fair market value on the date of death (or later alternate valuation used for estate or inheritance tax) by the co-owner's percentage of ownership. This is the basis for the co-owner's part-interest.
	4	add the amounts from steps 2 and 3 and enter the total on line 5 of a **second** worksheet.
	5	complete lines 6–13 on the second worksheet, including adjustments to basis only for events after the co-owner's death.
your home was ever damaged as the result of a casualty	1	in addition to lines 6–13, including other lines of the worksheet you may need to fill out, on line 8 enter any amounts you spent to restore the home to its condition before the casualty.
	2	on line 11 enter: • any insurance reimbursements you received (or expect to receive) for the loss, and • any deductible casualty losses not covered by insurance.
none of these items apply		fill out entire worksheet.

Worksheet 1. **Adjusted Basis of Home Sold**

Keep for Your Records

Caution: *See the Worksheet 1 Instructions before you use this worksheet.*

1.	Enter the purchase price of the home sold. (If you filed Form 2119 when you originally acquired that home to postpone gain on the sale of a previous home before May 7, 1997, enter the adjusted basis of the new home from that Form 2119.)			**1.**	
2.	Seller-paid points for home bought after 1990 (see Seller-paid points). Do not include any seller-paid points you already subtracted to arrive at the amount entered on line 1			**2.**	
3.	Subtract line 2 from line 1			**3.**	
4.	Settlement fees or closing costs (see Settlement fees or closing costs). If line 1 includes the adjusted basis of the new home from Form 2119, skip lines 4a–4g and 5; go to line 6.				
	a. Abstract and recording fees	**4a.**			
	b. Legal fees (including fees for title search and preparing documents)	**4b.**			
	c. Survey fees	**4c.**			
	d. Title insurance	**4d.**			
	e. Transfer or stamp taxes	**4e.**			
	f. Amounts that the seller owed that you agreed to pay (back taxes or interest, recording or mortgage fees, and sales commissions)	**4f.**			
	g. Other	**4g.**			
5.	Add lines 4a through 4g			**5.**	
6.	Cost of additions and improvements. Do not include any additions and improvements included on line 1			**6.**	
7.	Special tax assessments paid for local improvements, such as streets and sidewalks			**7.**	
8.	Other increases to basis			**8.**	
9.	Add lines 3, 5, 6, 7, and 8			**9.**	
10.	Depreciation allowed or allowable, related to the business use or rental of the home	**10.**			
11.	Other decreases to basis (see Decreases to Basis). Do not include any postponed gain that reduced the adjusted basis of the new home reported from Form 2119 on line 1	**11.**			
12.	Add lines 10 and 11			**12.**	
13.	**Adjusted basis of home sold**. Subtract line 12 from line 9. Enter here and on Worksheet 2, line 4			**13.**	

Worksheet 2. **Taxable Gain on Sale of Home**

Keep for Your Records

Part 1. Gain or (Loss) on Sale			
1.	Selling price of home	**1.**	
2.	Selling expenses (including commissions, advertising and legal fees, and seller-paid loan charges)	**2.**	
3.	Subtract line 2 from line 1. This is the amount realized	**3.**	
4.	Adjusted basis of home sold (from Worksheet 1, line 13)	**4.**	
5.	**Gain or (loss)** on the sale. Subtract line 4 from line 3. If this is a loss, stop here	**5.**	
Part 2. Exclusion and Taxable Gain			
6.	Enter any depreciation allowed or allowable on the property for periods after May 6, 1997. If none, enter -0-	**6.**	
7.	Subtract line 6 from line 5. If the result is less than zero, enter -0-	**7.**	
8.	Aggregate number of days of nonqualified use after 2008. If none, enter -0-. If line 8 is equal to zero, skip to line 12 and enter the amount from line 7 on line 12	**8.**	
9.	Number of days taxpayer owned the property	**9.**	
10.	Divide the amount on line 8 by the amount on line 9. Enter the result as a decimal (rounded to at least 3 places). But do not enter an amount greater than 1.00	**10.**	
11.	Gain allocated to nonqualified use. (Line 7 multiplied by line 10)	**11.**	
12.	Gain eligible for exclusion. Subtract line 11 from line 7	**12.**	
13.	If you qualify to exclude gain on the sale, enter your maximum exclusion (see *Maximum Exclusion*). If you qualify for a reduced maximum exclusion, enter the amount from Worksheet 3, line 7. If you do not qualify to exclude gain, enter -0-	**13.**	
14.	**Exclusion**. Enter the smaller of line 12 or line 13	**14.**	
15.	**Taxable gain**. Subtract line 14 from line 5. Report your taxable gain as described under *Reporting the Sale*. **If the amount on line 6 is more than zero, complete line 16**	**15.**	
16.	Enter the **smaller** of line 6 or line 15. Enter this amount on line 12 of the Unrecaptured Section 1250 Gain Worksheet in the instructions for Schedule D (Form 1040)	**16.**	

Caution: *Complete this worksheet only if you qualify for a reduced maximum exclusion (see Reduced Maximum Exclusion). Complete column (a).*

			(a) You	(b) Your Spouse
1.	Maximum amount	1.	$250,000	$250,000
2 a.	Enter the number of days (or months) that you used the property as a main home during the 5-year period* ending on the date of sale	2a.		
b.	Enter the number of days (or months) that you owned the property during the 5-year period* ending on the date of sale. If you used days on line 2a, you also must use days on this line and on lines 3 and 5. If you used months on line 2a, you also must use months on this line and on lines 3 and 5. (If married filing jointly and one spouse owned the property longer than the other spouse, both spouses are treated as owning the property for the longer period.)	b.		
c.	Enter the smaller of line 2a or 2b	c.		
3.	Have you (or your spouse, if filing jointly) excluded gain from the sale of another home during the 2-year period ending on the date of this sale? ☐ **No.** Skip line 3 and enter the number of days (or months) from line 2c on line 4. ☐ **Yes.** Enter the number of days (or months) between the date of the most recent sale of another home on which you excluded gain and the date of sale of this home	3.		
4.	Enter the smaller of line 2c or 3	4.		
5.	Divide the amount on line 4 by 730 days (or 24 months). Enter the result as a decimal (rounded to at least 3 places). But do not enter an amount greater than 1.000	5.		
6.	Multiply the amount on line 1 by the decimal amount on line 5	6.		
7.	**Reduced maximum exclusion.** Add the amounts in columns (a) and (b) of line 6. Enter it here and on Worksheet 2, line 13	7.		

***If you were a member of the uniformed services or Foreign Service, an employee of the intelligence community, or an employee or volunteer of the Peace Corps during the time you owned the home, see *Members of the uniformed services or Foreign Service, employees of the intelligence community, or employees or volunteers of the Peace Corps* to determine your 5-year period.**

How To Get Tax Help

Whether it's help with a tax issue, preparing your tax return or a need for a free publication or form, get the help you need the way you want it: online, use a smart phone, call or walk in to an IRS office or volunteer site near you.

Free help with your tax return. You can get free help preparing your return nationwide from IRS-certified volunteers. The Volunteer Income Tax Assistance (VITA) program helps low-to-moderate income, elderly, people with disabilities, and limited English proficient taxpayers. The Tax Counseling for the Elderly (TCE) program helps taxpayers age 60 and older with their tax returns. Most VITA and TCE sites offer free electronic filing and all volunteers will let you know about credits and deductions you may be entitled to claim. In addition, some VITA and TCE sites provide taxpayers the opportunity to prepare their own return with help from an IRS-certified volunteer. To find the nearest VITA or TCE site, you can use the VITA Locator Tool on IRS.gov, download the IRS2Go app, or call 1-800-906-9887.

As part of the TCE program, AARP offers the Tax-Aide counseling program. To find the nearest AARP Tax-Aide site, visit AARP's website at *www.aarp.org/money/taxaide* or call 1-888-227-7669. For more information on these programs, go to IRS.gov and enter "VITA" in the search box.

Internet. IRS.gov and **IRS2Go** are ready when you are —24 hours a day, 7 days a week.

- Download the free IRS2Go app from the iTunes app store or from Google Play. Use it to check your refund status, order transcripts of your tax returns or tax account, watch the IRS YouTube channel, get IRS news as soon as it's released to the public, subscribe to filing season updates or daily tax tips, and follow the IRS Twitter news feed, @IRSnews, to get the latest federal tax news, including information about tax law changes and important IRS programs.
- Check the status of your 2013 refund with the *Where's My Refund?* application on IRS.gov or download the IRS2Go app and select the *Refund Status* option. The IRS issues more than 9 out of 10 refunds in less than 21 days. Using these applications, you can start checking on the status of your return within 24 hours after we receive your e-filed return or 4 weeks after you mail a paper return. You will also be given a personalized refund date as soon as the IRS processes your tax return and approves your refund. The IRS updates *Where's My Refund?* every 24 hours, usually overnight, so you only need to check once a day.

- Use the *Interactive Tax Assistant* (ITA) to research your tax questions. No need to wait on the phone or stand in line. The ITA is available 24 hours a day, 7 days a week, and provides you with a variety of tax information related to general filing topics, deductions, credits, and income. When you reach the response screen, you can print the entire interview and the final response for your records. New subject areas are added on a regular basis.
  Answers not provided through ITA may be found in *Tax Trails*, one of the Tax Topics on IRS.gov which contain general individual and business tax information or by searching the *IRS Tax Map*, which includes an **international subject index**. You can use the **IRS Tax Map**, to search publications and instructions by topic or keyword. The IRS Tax Map integrates forms and publications into one research tool and provides single-point access to tax law information by subject. When the user searches the IRS Tax Map, they will be provided with links to related content in existing IRS publications, forms and instructions, questions and answers, and Tax Topics.
- Coming this filing season, you can immediately view and print for free all 5 types of individual federal tax transcripts (tax returns, tax account, record of account, wage and income statement, and certification of non-filing) using **Get Transcript**. You can also ask the IRS to mail a return or an account transcript to you. Only the mail option is available by choosing the *Tax Records* option on the IRS2Go app by selecting *Mail Transcript* on IRS.gov or by calling 1-800-908-9946. Tax return and tax account transcripts are generally available for the current year and the past three years.
- Determine if you are eligible for the EITC and estimate the amount of the credit with the *Earned Income Tax Credit (EITC) Assistant*.
- Visit *Understanding Your IRS Notice or Letter* to get answers to questions about a notice or letter you received from the IRS.
- If you received the First Time Homebuyer Credit, you can use the *First Time Homebuyer Credit Account Look-up* tool for information on your repayments and account balance.
- Check the status of your amended return using *Where's My Amended Return?* Go to IRS.gov and enter *Where's My Amended Return?* in the search box. You can generally expect your amended return to be processed up to 12 weeks from the date we receive it. It can take up to 3 weeks from the date you mailed it to show up in our system.
- Make a payment using one of several safe and convenient electronic payment options available on IRS.gov. Select the Payment tab on the front page of IRS.gov for more information.
- Determine if you are eligible and apply for an *online payment agreement*, if you owe more tax than you can pay today.
- Figure your income tax withholding with the *IRS Withholding Calculator* on IRS.gov. Use it if you've had too much or too little withheld, your personal situation has changed, you're starting a new job or you just want to see if you're having the right amount withheld.
- Determine if you might be subject to the Alternative Minimum Tax by using the *Alternative Minimum Tax Assistant* on IRS.gov.
- Request an **Electronic Filing PIN** by going to IRS.gov and entering *Electronic Filing PIN* in the search box.
- Download forms, instructions and publications, including accessible versions for people with disabilities.
- Locate the nearest **Taxpayer Assistance Center (TAC)** using the *Office Locator* tool on IRS.gov, or choose the *Contact Us* option on the IRS2Go app and search *Local Offices*. An employee can answer questions about your tax account or help you set up a payment plan. Before you visit, check the *Office Locator* on IRS.gov, or *Local Offices* under Contact Us on IRS2Go to confirm the address, phone number, days and hours of operation, and the services provided. If you have a special need, such as a disability, you can request an appointment. Call the local number listed in the Office Locator, or look in the phone book under United States Government, Internal Revenue Service.
- Apply for an **Employer Identification Number (EIN).** Go to IRS.gov and enter *Apply for an EIN* in the search box.
- Read the Internal Revenue Code, regulations, or other official guidance.
- Read Internal Revenue Bulletins.
- Sign up to receive local and national tax news and more by email. Just click on “subscriptions” above the search box on IRS.gov and choose from a variety of options.

Phone. You can call the IRS, or you can carry it in your pocket with the IRS2Go app on your smart phone or tablet. Download the free IRS2Go app from the iTunes app store or from Google Play.

- Call to locate the nearest volunteer help site, 1-800-906-9887 or you can use the VITA Locator Tool on IRS.gov, or download the IRS2Go app.
  Low-to-moderate income, elderly, people with disabilities, and limited English proficient taxpayers can get free help with their tax return from the nationwide Volunteer Income Tax Assistance (VITA) program. The Tax Counseling for the Elderly (TCE) program helps taxpayers age 60 and older with their tax returns. Most VITA and TCE sites offer free electronic filing. Some VITA and TCE sites provide IRS-certified volunteers who can help prepare your tax return. Through the TCE program, AARP offers the Tax-Aide counseling program; call 1-888-227-7669 to find the nearest Tax-Aide location.

- Call the automated *Where's My Refund?* information hotline to check the status of your 2013 refund 24 hours a day, 7 days a week at 1-800-829-1954. If you e-file, you can start checking on the status of your return within 24 hours after the IRS receives your tax return or 4 weeks after you've mailed a paper return. The IRS issues more than 9 out of 10 refunds in less than 21 days. *Where's My Refund?* will give you a personalized refund date as soon as the IRS processes your tax return and approves your refund. Before you call this automated hotline, have your 2013 tax return handy so you can enter your social security number, your filing status, and the exact whole dollar amount of your refund. The IRS updates *Where's My Refund?* every 24 hours, usually overnight, so you only need to check once a day. Note, the above information is for our automated hotline. Our live phone and walk-in assistors can research the status of your refund only if it's been 21 days or more since you filed electronically or more than 6 weeks since you mailed your paper return.
- Call the *Amended Return Hotline*, 1-866-464-2050, to check the status of your amended return. You can generally expect your amended return to be processed up to 12 weeks from the date we receive it. It can take up to 3 weeks from the date you mailed it to show up in our system.
- Call 1-800-TAX-FORM (1-800-829-3676) to order current-year forms, instructions, publications, and prior-year forms and instructions (limited to 5 years). You should receive your order within 10 business days.
- Call **TeleTax,** 1-800-829-4477, to listen to pre-recorded messages covering general and business tax information. If, between January and April 15, you still have questions about the Form 1040, 1040A, or 1040EZ (like filing requirements, dependents, credits, Schedule D, pensions and IRAs or self-employment taxes), call 1-800-829-1040.
- Call using TTY/TDD equipment, 1-800-829-4059 to ask tax questions or order forms and publications. The TTY/TDD telephone number is for people who are deaf, hard of hearing, or have a speech disability. These individuals can also contact the IRS through relay services such as the *Federal Relay Service*.

Walk-in. You can find a selection of forms, publications and services — in-person.

- Products. You can walk in to some post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, and city and county government offices have a collection of products available to photocopy from reproducible proofs.
- Services. You can walk in to your local TAC for face-to-face tax help. An employee can answer questions about your tax account or help you set up a payment plan. Before visiting, use the *Office Locator* tool on IRS.gov, or choose the *Contact Us* option on the IRS2Go app and search *Local Offices* for days and hours of operation, and services provided.

Mail. You can send your order for forms, instructions, and publications to the address below. You should receive a response within 10 business days after your request is received.

Internal Revenue Service
1201 N. Mitsubishi Motorway
Bloomington, IL 61705-6613

The Taxpayer Advocate Service Is Here to Help You. **The Taxpayer Advocate Service (TAS)** is your voice at the IRS. Our job is to ensure that every taxpayer is treated fairly and that you know and understand your rights.

What can TAS do for you? We can offer you free help with IRS problems that you can't resolve on your own. We know this process can be confusing, but the worst thing you can do is nothing at all! TAS can help if you can't resolve your tax problem and:

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

If you qualify for our help, you'll be assigned to one advocate who'll be with you at every turn and will do everything possible to resolve your problem. Here's why we can help:

- TAS is an independent organization within the IRS.
- Our advocates know how to work with the IRS.
- Our services are free and tailored to meet your needs.
- We have offices in every state, the District of Columbia, and Puerto Rico.

How can you reach us? If you think TAS can help you, call your local advocate, whose number is in your local directory and at *Taxpayer Advocate*, or call us toll-free at 1-877-777-4778.

How else does TAS help taxpayers?

TAS also works to resolve large-scale, systemic problems that affect many taxpayers. If you know of one of these broad issues, please report it to us through our *Systemic Advocacy Management System*.

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. Visit *Taxpayer Advocate* or see IRS Publication 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.