

IRS Summertime Tax Tip 2007-22
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Selling Your Home

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

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

This exclusion—up to \$250,000 for individuals and \$500,000 for married taxpayers filing joint returns—is not a once in a lifetime event. The exclusion may be claimed each time that you sell your main home, but generally no more often than once every two years.

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

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

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

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

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

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