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This form, instruction, or publication is being revised to reflect legislation enacted December 20, 2019. The updated revision will be posted here as soon as possible. We apologize for the delay and inconvenience. The most recently issued final revision begins on the next page, but, again, is currently being updated.

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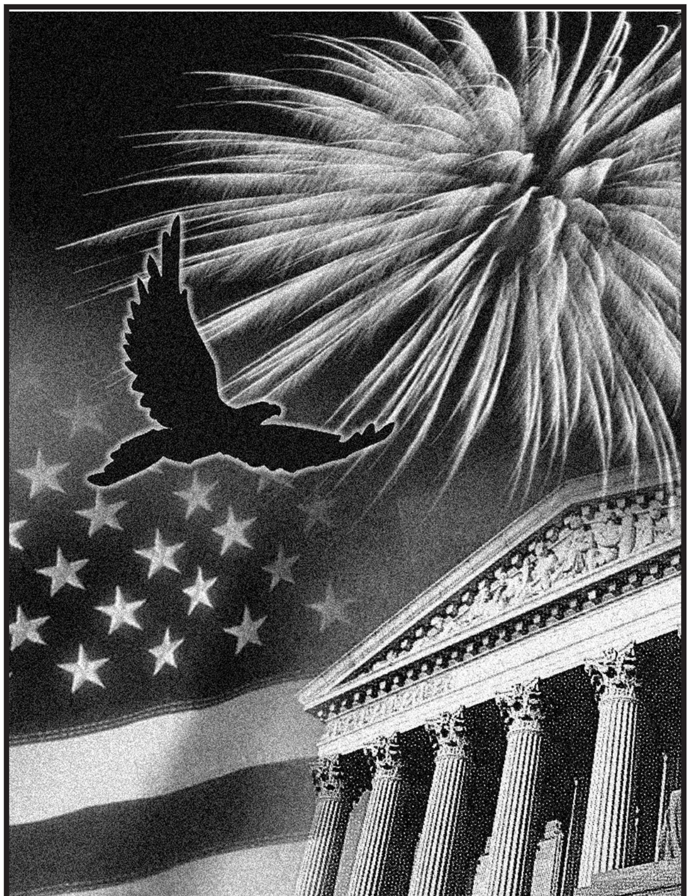
Department of the Treasury
Internal Revenue Service

Publication 523
Cat. No. 15044W

Selling Your Home

For use in preparing

2018 Returns



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Dec 21, 2018

Contents

Future Developments

For the latest information about developments related to Pub. 523, such as legislation enacted after it was published, go to *IRS.gov/Pub523*.

What's New

Special rules for capital gains invested in Qualified Opportunity Funds. Effective December 22, 2017, IRC 1400Z-2 provides a temporary deferral of inclusion in gross income for capital gains invested in Qualified Opportunity Funds, and permanent exclusion of capital gains from the sale or exchange of an investment in the Qualified Opportunity Fund if the investment is held for at least 10 years. For more information, see the Instructions for Form 8949.

Expiration of the exclusion of forgiven mortgage debt from income. The exclusion of income for mortgage debt canceled or forgiven expired on January 1, 2018. See *Report as ordinary income on Form 1040 applicable canceled or forgiven mortgage debt* at the end of the publication.

Reminders

Photographs of missing children. The IRS is a proud partner with the National Center for Missing & Exploited Children® (NCMEC). Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

Introduction

This publication explains the tax rules that apply when you sell or otherwise give up ownership of a home. If you meet certain conditions, you may exclude the first $250,000 of gain from the sale of your home from your income and avoid paying taxes on it. The exclusion is increased to $500,000 for a married couple filing jointly.

This publication also has worksheets for calculations relating to the sale of your home. It will show you how to:

1. Determine if you have a gain or loss on the sale of your home,
2. Figure how much of any gain is taxable, and
3. Report the transaction correctly on your tax return.

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

You can send us comments through IRS.gov/FormComments. Or you can write to:

Internal Revenue Service
Tax Forms and Publications
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Washington, DC 20224

Although we can't respond individually to each comment received, we do appreciate your feedback and will consider your comments as we revise our tax forms, instructions, and publications.

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

Useful Items

You may want to see:

Publication

- ❑ **504** Divorced or Separated Individuals
- ❑ **505** Tax Withholding and Estimated Tax
- ❑ **527** Residential Rental Property
- ❑ **530** Tax Information for Homeowners
- ❑ **537** Installment Sales
- ❑ **544** Sales and Other Dispositions of Assets
- ❑ **547** Casualties, Disasters, and Thefts
- ❑ **551** Basis of Assets
- ❑ **587** Business Use of Your Home
- ❑ **936** Home Mortgage Interest Deduction
- ❑ **4681** Canceled Debts, Foreclosures, Repossessions, and Abandonments

Form (and Instructions)

- ❑ **Schedule A (Form 1040)** Itemized Deductions
- ❑ **Schedule B (Form 1040)** Interest and Ordinary Dividends
- ❑ **Schedule D (Form 1040)** Capital Gains and Losses
- ❑ **982** Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment)
- ❑ **1040** U.S. Individual Income Tax Return
- ❑ **1099-S** Proceeds From Real Estate Transactions
- ❑ **4797** Sales of Business Property
- ❑ **5405** Repayment of the First-Time Homebuyer Credit
- ❑ **6252** Installment Sale Income
- ❑ **8822** Change of Address
- ❑ **8828** Recapture of Federal Mortgage Subsidy
- ❑ **8949** Sales and Other Dispositions of Capital Assets
- ❑ **W-2** Wage and Tax Statement
- ❑ **W-7** Application for IRS Individual Taxpayer Identification Number

Does Your Home Sale Qualify for the Exclusion of Gain?

The tax code recognizes the importance of home ownership by allowing you to exclude gain when you sell your main home. To qualify for the maximum exclusion of gain ($250,000 or $500,000 if married filing jointly) you must meet the Eligibility Test, explained later. To qualify for a partial exclusion of gain, meaning an exclusion of gain less than the full amount, you must meet one of the situations listed in Does Your Home Qualify for a Partial Exclusion of Gain?, later.

Before considering the Eligibility Test or whether your home qualifies for a partial exclusion, you should consider some preliminary items.

Transfer of your home to a spouse or an ex-spouse. Generally, if you transferred your home (or share of a jointly owned home) to a spouse or ex-spouse as part of a divorce settlement, you are considered to have no gain or loss. You have nothing to report from the transfer and this entire publication doesn't apply to you. However, there is one exception to this rule. If your spouse or ex-spouse is a nonresident alien, then you likely will have a gain or loss from the transfer and the tests in this publication apply.

Home's date of sale. To determine if you meet the Eligibility Test or qualify for a partial exclusion, you will need to know the home's date of sale, meaning when you sold it. If you received Form 1099-S, Proceeds From Real Estate Transactions, the date of sale appears in box 1. If you didn't receive Form 1099-S, the date of sale is either the date the title transferred or the date the economic burdens and benefits of ownership shifted to the buyer, whichever date is earlier. In most cases, these dates are the same.

Sale of your main home You may take the exclusion, whether maximum or partial, only on the sale of a home that is your principal residence, meaning your main home. An individual has only one main home at a time. If you own and live in just one home, then that property is your main home. If you own or live in more than one home, then you must apply a "facts and circumstances" test to determine which property is your main home. While the most important factor is where you spend the most time, other factors are relevant as well. They are listed below. The more of these factors that are true of a home, the more likely that it is your main home.

- The address listed on your:
  1. U.S. Postal Service address,
  2. Voter Registration Card,
  3. Federal and state tax returns, and
  4. Driver's license or car registration.
- The home is near:
  1. Where you work,
  2. Where you bank,
  3. The residence of one or more family members, and
  4. Recreational clubs or religious organizations of which you are a member.

Finally, the exclusion can apply to many different types of housing facilities. A single-family home, a condominium, a cooperative apartment, a mobile home, and a houseboat each may be a main home and therefore qualify for the exclusion.

Eligibility Test

The Eligibility Test determines whether you are eligible for the maximum exclusion of gain ($250,000 or $500,000 if married filing jointly).

Eligibility Step 1—Automatic Disqualification

Determine whether any of the automatic disqualifications apply. Your home sale isn't eligible for the exclusion if ANY of the following are true.

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

If any of these conditions are true, the exclusion doesn't apply. Skip to Figuring Gain or Loss, later.

Eligibility Step 2—Ownership

Determine whether you meet the ownership requirement. If you owned the home for at least 24 months (2 years) out of the last 5 years leading up to the date of sale (date of the closing), you meet the ownership requirement. For a married couple filing jointly, only one spouse has to meet the ownership requirement.

Eligibility Step 3—Residence

Determine whether you meet the residence requirement. If you owned the home and used it as your residence for at least 24 months of the previous 5 years, you meet the residence requirement. The 24 months of residence can fall anywhere within the 5-year period, and it doesn't have to be a single block of time. All that is required is a total of 24 months (730 days) of residence during the 5-year period. Unlike the ownership requirement, each spouse must meet the residence requirement individually for a married couple filing jointly to get the full exclusion.

If you were ever away from home, you need to determine whether that time counts towards your residence requirement. A vacation or other short absence counts as time you lived at home (even if you rented out your home while you were gone).

If you become physically or mentally unable to care for yourself, you only need to show that your home was your residence for 12 months out of the 5 years leading up to the date of sale. In addition, any time you spent living in a care facility (such as a nursing home) counts toward your residence requirement, so long as the facility has a license from a state or other political entity to care for people with your condition.

Eligibility Step 4—Look-Back

Determine whether you meet the look-back requirement. If you didn't sell another home during the 2-year period before the date of sale (or, if you did sell another home during this period, but didn't take an exclusion of the gain earned from it), you meet the look-back requirement.

You may take the exclusion only once during a 2-year period.

Eligibility Step 5—Exceptions to the Eligibility Test

There are some exceptions to the Eligibility Test. If any of the following situations apply to you, read on to see if they may affect your qualification. If none of these situations apply, skip to Step 6.

- A separation or divorce occurred during the ownership of the home. See *Separated or divorced taxpayers*.
- The death of a spouse occurred during the ownership of the home. See *Widowed taxpayers*.
- The sale involved vacant land. See *Vacant land next to home*.
- You owned a remainder interest, meaning the right to own a home in the future, and you sold that right. See *Remainder interest*.
- Your previous home was destroyed or condemned. See *Home destroyed or condemned—considerations for benefits*.
- You were a service member during the ownership of the home. See *Service, Intelligence, and Peace Corps personnel*.
- You acquired or are relinquishing the home in a like-kind exchange. See *Like-kind/1031 exchange*.

Separated or divorced taxpayers. If you were separated or divorced prior to the sale of the home, you can treat the home as your residence if:

- You are a sole or joint owner, and
- Your spouse or former spouse is allowed to live in the home under a divorce or separation agreement and uses the home as his or her main home.

If your home was transferred to you by a spouse or ex-spouse (whether in connection with a divorce or not), you can count any time when your spouse owned the home as time when you owned it. However, you must meet the residence requirement on your own.

Widowed taxpayers. If you are a widowed taxpayer who doesn't meet the 2-year ownership and residence requirements on your own, consider the following rule. If you sell your home within 2 years of the death of your spouse and you haven't remarried at the time of the sale, then you may include any time when your late spouse owned and lived in the home, even if without you, to meet the ownership and residence requirements.

Also, you may be able to increase your exclusion amount from $250,000 to $500,000. You may take the higher exclusion if you meet all of the following conditions.

1. You sell your home within 2 years of the death of your spouse;
2. You haven't remarried at the time of the sale;
3. Neither you nor your late spouse took the exclusion on another home sold less than 2 years before the date of the current home sale; and
4. You meet the 2-year ownership and residence requirements (including your late spouse's times of ownership and residence if need be).

Service, Intelligence, and Peace Corps personnel. If you or your spouse are a member of the Uniformed Services or the Foreign Service, or an employee of the intelligence community in the United States, you may choose to suspend the 5-year test period for ownership and residence when you're on qualified official extended duty. This means you may be able to meet the 2-year residence test even if, because of your service, you didn't actually live in your home for at least the 2 years during the 5-year period ending on the date of sale.

Qualified extended duty. You are on qualified extended duty if:

- You are called or ordered to active duty for an indefinite period, or for a definite period of more than 90 days.
- You are serving at a duty station at least 50 miles from your main home, or you are living in government quarters under government orders.
- You are one of the following:
  1. A member of the armed forces (Army, Navy, Air Force, Marine Corps, Coast Guard);
  2. A member of the commissioned corps of the National Oceanic and Atmospheric Administration (NOAA) or the Public Health Service;
  3. A Foreign Service chief of mission, ambassador-at-large, or officer;
  4. A member of the Senior Foreign Service or the Foreign Service personnel;
  5. An employee, enrolled volunteer, or enrolled volunteer leader of the Peace Corps serving outside the United States; or
  6. An employee of the intelligence community, meaning:
     a. The Office of the Director of National Intelligence, the Central Intelligence Agency, the National Security Agency, the Defense Intelligence Agency, the National Geospatial-Intelligence Agency, or the National Reconnaissance Office;
     b. Any other office within the Department of Defense for the collection of specialized national intelligence through reconnaissance programs;
     c. Any of the intelligence elements of the Army, 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;

d. The Bureau of Intelligence and Research of the Department of State; or

e. Any of the elements of the Department of Homeland Security concerned with the analyses of foreign intelligence information.

Period of suspension. The period of suspension can't last more than 10 years. Together, the 10-year suspension period and the 5-year test period can be as long as, but no more than, 15 years. You can't suspend the 5-year period for more than one property at a time. You can revoke your choice to suspend the 5-year period at any time.

Example 1. Mary bought a home on May 1, 2001. She used it as her main home until August 27, 2004. On August 28, 2004, she went on qualified official extended duty with the Navy. She didn't live in the house again before selling it on August 1, 2017. Mary chooses to use the entire 10-year suspension period. Therefore, the suspension period would extend back from August 1, 2017, to August 2, 2007, and the 5-year test period would extend back to August 2, 2002. During that period, Mary owned the house all 5 years and lived in it as her main home from August 2, 2002, until August 28, 2004, 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.

Example 2. John bought and moved into a home in 2007. He lived in it as his main home for $3^1/_2$ years. For the next 6 years, he didn't live in it because he was on qualified official extended duty with the Army. He then sold the home at a gain in 2016. 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 $3^1/_2$ years during this test period.

Vacant land next to home. You can include the sale of vacant land adjacent to the land on which your home sits as part of a sale of your home if ALL of the following are true.

- You owned and used the vacant land as part of your home.
- The sale of the vacant land and the sale of your home occurred within 2 years of each other.
- Both sales either meet the Eligibility Test or qualify for partial tax benefits, as described earlier.

Also, if your sale of vacant land meets all these requirements, you must treat that sale and the sale of your home as a single transaction for tax purposes, meaning that you may apply the exclusion only once.

However, if you move your home from the land on which it stood (meaning you relocate the actual physical structure), then that land no longer counts as part of your home. For example, if you move a mobile home to a new lot and sell the old lot, then you can't treat the sale of the old lot as the sale of your home.

Home destroyed or condemned—considerations for benefits. If an earlier home of yours was destroyed or condemned, you may be able to count your time there towards the ownership and residence test.

If your home was destroyed, see Pub. 547, Casualties, Disasters, or Thefts. If your home was condemned, see Pub. 544, Sales and Other Disposition of Assets.

Remainder interest. The sale of a remainder interest in your home is eligible for the exclusion only if both of the following conditions are met.

- The buyer isn't a “related party.” A related party can be a related person or a related corporation, trust, partnership, or other entity which you control or in which you have an interest.
- You haven't previously sold an interest in the home for which you took the exclusion.

Like-kind/1031 exchange. If you sold a home that you acquired in a like-kind exchange, then the following test applies.

You can't claim the exclusion if:

1. Either a. or b. applies:
   a. You acquired your home in a like-kind exchange (also known as a section 1031 exchange), or
   b. Your basis in your home is determined by reference to a previous owner's basis, and that previous owner acquired the property in a like-kind exchange (for example, the owner acquired the home and then gave it to you); and
2. You sold the home within 5 years of the date your home was acquired in the like-kind exchange.

For more information about like-kind exchanges, see Pub. 544.

If you relinquished your home in a like-kind exchange, then you should determine if you qualify to exclude gain as you would if you sold the home. 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. For more information, see Revenue Procedure 2005-14, 2005-7 I.R.B. 528, available at *IRS.gov/irb/2005-07_IRB#RP-2005-14*.

Eligibility Step 6—Final Determination of Eligibility

If you meet the ownership, residence, and look-back requirements, taking the exceptions into account, then you meet the Eligibility Test. Your home sale qualifies for the maximum exclusion. Skip to Worksheet 1, later.

If you didn't meet the Eligibility Test, then your home isn't eligible for the maximum exclusion, but you should continue to *Does Your Home Qualify for a Partial Exclusion of Gain?*.

Does Your Home Qualify for a Partial Exclusion of Gain?

If you don't meet the Eligibility Test, you may still qualify for a partial exclusion of gain. You can meet the requirements for a partial exclusion if the main reason for your home sale was a change in workplace location, a health issue, or an unforeseeable event.

Work-Related Move

You meet the requirements for a partial exclusion if any of the following events occurred during your time of ownership and residence in the home.

- You took or were transferred to a new job in a work location at least 50 miles farther from the home than your old work location. For example, your old work location was 15 miles from the home and your new work location is 65 miles from the home.
- You had no previous work location and you began a new job at least 50 miles from the home.
- Either of the above is true of your spouse, a co-owner of the home, or anyone else for whom the home was his or her residence.

Health-Related Move

You meet the requirements for a partial exclusion if any of the following health-related events occurred during your time of ownership and residence in the home.

- You moved to obtain, provide, or facilitate diagnosis, cure, mitigation, or treatment of disease, illness, or injury for yourself or a family member.
- You moved to obtain or provide medical or personal care for a family member suffering from a disease, illness, or injury. Family includes your:
  1. Parent, grandparent, stepmother, stepfather;
  2. Child (including adopted child, eligible foster child, and stepchild), grandchild;
  3. Brother, sister, stepbrother, stepsister, half-brother, half-sister;
  4. Mother-in-law, father-in-law, brother-in-law, sister-in-law, son-in-law, daughter-in-law;
  5. Uncle, aunt, nephew, or niece.
- A doctor recommended a change in residence for you because you were experiencing a health problem.
- The above is true of your spouse, a co-owner of the home, or anyone else for whom the home was his or her residence.

Unforeseeable Events

You meet the standard requirements if any of the following events occurred during the time you owned and lived in the home you sold.

- Your home was destroyed or condemned.
- Your home suffered a casualty loss because of a natural or man-made disaster or an act of terrorism. (It doesn't matter whether the loss is deductible on your tax return.)
- You, your spouse, a co-owner of the home, or anyone else for whom the home was his or her residence:
  1. Died;
  2. Became divorced or legally separated;
  3. Gave birth to two or more children from the same pregnancy;
  4. Became eligible for unemployment compensation;
  5. Became unable, because of a change in employment status, to pay basic living expenses for the household (including expenses for food, clothing, housing, medication, transportation, taxes, court-ordered payments, and expenses reasonably necessary for making an income).

An event is determined to be an unforeseeable event in IRS published guidance.

Other Facts and Circumstances

Even if your situation doesn't match any of the standard requirements described above, you still may qualify for an exception. You may qualify if you can demonstrate the primary reason for sale, based on facts and circumstances, is work-related, health-related, or unforeseeable. Important factors are:

- The situation causing the sale arose during the time you owned and used your property as your residence.
- You sold your home not long after the situation arose.
- You couldn't have reasonably anticipated the situation when you bought the home.
- You began to experience significant financial difficulty maintaining the home.
- The home became significantly less suitable as a main home for you and your family for a specific reason.

Worksheet 1. **Find Your Exclusion Limit**

Use this worksheet only if no automatic disqualifications apply, and take all exceptions into account.

A) Determine if you are eligible for the maximum exclusion limit.			
Status	**You are eligible for the maximum exclusion if...**	**Maximum exclusion**	**If you're not eligible for the maximum exclusion limit, then you should…**
Married filing jointly	Both spouses meet the residence and look-back requirements and one or both spouses meet the ownership requirement.	$500,000	Determine if either spouse is eligible for the full limit as a single person. If not, determine if either spouse is eligible for a partial exclusion.
Single, married filing separately	You meet the residence, ownership, and look-back requirements.	$250,000	Determine if you are eligible for a partial exclusion.
Widowed	1. You sell your home within 2 years of the death of your spouse. 2. You haven't remarried at the time of the sale. 3. Neither you nor your late spouse took the exclusion on another home sold less than 2 years before the date of the current home sale. 4. You meet the 2-year ownership and residence requirements (including your late spouse's times of ownership and residence if need be).	$500,000	Determine if you are eligible for the full limit as a single person. If not, determine if you are eligible for a partial exclusion.

B) Complete this section only if you have determined that you aren't eligible for the maximum exclusion but are eligible for a partial exclusion. If you are eligible for a partial exclusion, use this section to determine your exclusion limit.		
Step 1	Determine the shortest of the following 3 periods:	
	1. Your time of residence in the home during the 5-year period leading up to the sale	______
	2. Your time of ownership of the home leading up to the sale	______
	3. The time that has elapsed between the sale and the date you last sold a home for which you took the exclusion	______
Step 2	Take the smallest period from Step 1 (you may use days or months) and divide that number by 730 (if using days) or 24 (if using months)	______
Step 3	Multiply the result from Step 2 by $250,000. Stop here if not married filing jointly	______
Step 4	Repeat Steps 1–3 for your spouse and add the two results	______

C) Your exclusion limit is $___________. Unless you have taxable gain from business or rental use (see *Business or Rental Use of Home*), only gain in excess of this amount is taxable.

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

A positive number indicates a gain; a negative number indicates a loss.

Certain events during your ownership, such as use of your home for business purposes or your making improvements to it, can affect your gain or loss. They are explained in this section.

See Worksheet 2, later, for steps you should follow to figure your gain or loss.

Basis Adjustments—Details and Exceptions

You should include many, but not all, costs associated with the purchase and maintenance of your home in the basis of your home. For more information on determining basis, see Pub. 551, Basis of Assets.

Fees and Closing Costs

Some settlement fees and closing costs you can include in your basis are:

- Abstract fees (abstract of title fees),
- Charges for installing utility services,
- Legal fees (including fees for the title search and preparing the sales contract and deed),
- Recording fees,
- Survey fees,
- Transfer or stamp taxes, and
- Owner's title insurance.

Some settlement fees and closing costs you can’t include in your basis are:

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

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

- The cost of the land, plus
- The amount it cost you to complete the house, including:
  1. The cost of labor and materials,
  2. Any amounts paid to a contractor,
  3. Any architect's fees,
  4. Building permit charges,
  5. Utility meter and connection charges, and
  6. Legal fees directly connected with building the house.

Your cost includes your down payment and any debt such as a first or second mortgage or notes you gave the seller or builder. It also includes certain settlement or closing costs. In addition, generally you must reduce your basis by points the seller paid you.

If you built all or part of your house yourself, its basis is the total amount it cost you to complete it. Don’t include in the cost of the house:

- The value of your own labor, or
- The value of any other labor for which you didn’t pay.

Costs owed by the seller that you paid. You can include in your basis any amounts the seller owes that you agree to pay (as long as the seller doesn’t reimburse you), such as:

- Any real estate taxes owed up through the day before the sale date,
- Back interest owed by the seller,
- The seller's title recording or mortgage fees,
- Charges for improvements or repairs that are the seller's responsibility (for example, lead paint removal), and
- Sales commissions (for example, payment to the seller's real estate agent).

Improvements

Improvements add to the value of your home, prolong its useful life, or adapt it to new uses. You add the cost of additions and improvements to the basis of your property.

The following chart lists some examples of improvements.

Examples of Improvements That Increase Basis
Keep for Your Records

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

Repairs done as part of larger project. You can include repair-type work if it is done as part of an extensive remodeling or restoration job. For example, replacing broken windowpanes is a repair, but replacing the same window as part of a project of replacing all the windows in your home counts as an improvement.

Examples of improvements you CAN'T include in your basis. You can't include:

- Any costs of repairs or maintenance that are necessary to keep your home in good condition but don't add to its value or prolong its life. Examples include painting (interior or exterior), fixing leaks, filling holes or cracks, or replacing broken hardware.
- Any costs of any improvements that are no longer part of your home (for example, wall-to-wall carpeting that you installed but later replaced).
- Any costs of any improvements with a life expectancy, when installed, of less than 1 year.

Exception. The entire job is considered an improvement if items that would otherwise be considered repairs are done as part of an extensive remodeling or restoration of your home. For example, if you have a casualty and your home is damaged, increase your basis by the amount you spend on repairs that restore the property to its pre-casualty condition.

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

- *1977–1987:* Credit for home energy improvements,
- *1992–present:* Direct or indirect subsidy from a public utility for installations or modifications aimed at lowering a home's electricity or natural gas usage or better managing its energy demand,
- *2006–present:* Credit for home energy efficiency improvements,
- *2006–present:* Credit for qualified solar electric property expenditures and qualified solar water heating property expenditures available, and
- *2006–2007 and 2009–2017:* Credit for energy improvements to non-business properties.

Home Acquired Through a Trade

Traded for another home. When you trade your home for a new one, you are treated as having sold your home and purchased a new one. Your sale price is the trade-in value you received for your home plus any mortgage or other debt that the person taking your home as a trade-in assumed (took over) from you as part of the deal.

Traded for other property. If you paid for your home by trading other property for it, the starting basis of your home is usually the fair market value of the property you traded.

Home Foreclosed, Repossessed, or Abandoned

If your home was foreclosed on, repossessed, or abandoned, you may have ordinary income, gain, or loss. See Pub. 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonments.

If you used part of your home for business or rental purposes, see "Foreclosures and Repossessions" in chapter 1 of Pub. 544, for examples of how to figure gain or loss.

Home Destroyed or Condemned

You have a disposition when your home is destroyed or condemned and you receive other property or money in payment, such as insurance or a condemnation award. This is treated as a sale and you may be able to exclude all or part of any gain that you have. If your home was destroyed, see Pub. 547. If your home was condemned, see Pub. 544.

Home Received in Divorce

Home acquired after July 18, 1984. If your former spouse was the sole owner, your starting basis is the same as your former spouse's adjusted basis just before you received the home. If you co-owned the home with your spouse, add the adjusted basis of your spouse's half-share in the home to the adjusted basis of your own half-share to get your starting basis. (In most cases, the adjusted basis of the two half-shares will be the same.) The rules apply whether or not you received anything in exchange for the home.

Home acquired on or before July 18, 1984. Your starting basis will usually be the home's fair market value at the time you acquired it from your spouse or ex-spouse.

For more information, see Pub. 504, Divorced or Separated Individuals. If you or your spouse or ex-spouse lived in a community property state, see Pub. 555, Community Property.

Home Received as a Gift

If you received your home as a gift, you should keep records of the date you received it. Record the adjusted basis of the donor at the time of the gift and the fair market value of the home at the time of the gift. Also, ask if the donor paid any gift tax. As a general rule, you will use the donor's adjusted basis at the time of the gift as your basis. However, see Table 2 below to determine if any exceptions to this rule listed in the "IF" column apply.

Table 2. **Exceptions to Using a Donor's Adjusted Basis for a Home Received as a Gift**

IF...	AND...	THEN...
at the time of the gift, the donor's adjusted basis in the home was *more* than the home's fair market value,	your usage of the donor's adjusted basis as your basis results in a loss,	you must use the fair market value of the home at the time of the gift as your basis (if using the fair market value results in a gain for you, then you don't need to recognize that gain).
at the time of the gift, the donor's adjusted basis in the home was *less* than the home's fair market value,	the donor paid gift tax on the gift of the home,	you figure your basis by starting with the donor's adjusted basis at the time of the gift and adding the federal gift tax paid due to the increase in value of the home (see Regulations section 1.1015-5 for further details on this calculation).

Home Inherited

Home acquired from a decedent who died before or after 2010. If you inherited your home from a decedent who died before or after 2010, your basis is the fair market value of the property on the date of the decedent's death (or the later alternate valuation date chosen by the personal representative of the estate). If 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 didn't have to be filed, your basis in the home is the same as its appraised value at the date of death, for purposes of state inheritance or transmission taxes.

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 (including Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin), each spouse is usually considered to own half of the community property. When either spouse dies, the total fair market value of the community property becomes the basis of the entire property, including the part belonging to the surviving spouse. For this rule to apply, at least half the value of the community property interest must be includible in the decedent's gross estate, whether or not the estate must file a return.

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

CAUTION *If you are selling a home in which you acquired an interest from a decedent who died in 2010, see* Pub. 4895, Tax Treatment of Property Acquired From a Decedent Dying in 2010, *available at IRS.gov/pub/irs-prior/p4895--2011.pdf, to determine your basis.*

Business or Rental Use of Home

This section applies only if you used a portion of your home for business or rental purposes during your ownership. This type of usage may affect your gain or loss calculations. For more information about using any part of your home for business or as a rental property, see Pub. 587, Business Use of Your Home, and Pub. 527, Residential Rental Property.

Exceptions. The following situations of business or rental usage don't affect your gain or loss calculations.

- **Space within the living area.** If the space you used for business of rental purposes was within the living area of the home, then your usage doesn't affect your gain or loss calculations. Examples of spaces within the living area include a rented spare bedroom and attic space used as a home office. In contrast, business or rental spaces not within the living area affect your gain/loss calculations. Examples of space not within the living area include a first-floor storefront with an attached residence; a rented apartment in a duplex; or a working farm with a farmhouse on the property.
- **Space formerly used for business or rental.** Space that was once used for business or rental purposes may be considered as residence space at the time of sale. A space formerly used for business is considered residence space if ALL of the following are true.
  - You weren't using the space for business or rental at the time you sold the property,
  - You didn't earn any business or rental income from the space in the year you sold your home, and
  - You used the space as residence space for 2 years out of the 5 years leading up to the sale.

If your space is considered as residence space at the time of the sale, then your former business usage DOESN'T affect your gain/loss calculations.

Business or rental usage calculations. If you have used part of the home (not within the home's living area) for solely business or rental purposes for more than 2 of the last 5 years, you need to make separate gain/loss calculations for the business and residence portions of your property. Make three copies of all pages of Worksheet 2. Label one copy "Total," one copy "Home," and one copy "Business or Rental."

Complete your **"Total"** worksheet using the figures for your property as a whole. Include the total amount you received, all of your basis adjustments, etc. Include the cost of all improvements, whether you made them to the business space or the residential space.

Determine your "business or rental percentage," meaning the percentage of your property that you used for

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

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

- **If married filing jointly,** figure gain or loss for both spouses together. **If single or married filing separately,** figure gain or loss as an individual.
- **If the home you sold had multiple owners,** your gain or loss is the gain or loss on the entire sale multiplied by your percentage of ownership.
- **If you used any portion of the property for business or rental purposes,** go to ***Business or Rental Use of Home***.

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

a. All money (currency, check, wire transfer) . . . . a. ____________

b. The fair market value of any other property or services you received . . . . b. ____________

c. The value of any notes, mortgages, or other debts that the buyer agreed to assume (take over) as part of the sale . . . . c. ____________

d. Any real estate taxes the buyer paid on your behalf . . . . d. ____________

e. Any amount you received for granting an option to buy your home, if the option was exercised . . . . e. ____________

f. Add lines 1a through 1e. This is your **sale price** . . . . f. ____________

- **If you received payment for personal property,** DON'T include it in the sale price.
- **If you received payment or reimbursement from your employer** because of a job transfer, DON'T include the payment as part of the selling price. Your employer will include it as wages in box 1 of your Form W-2.
- **If you received Form 1099-S,** the gross proceeds for the sale price should appear in box 2. If box 4 is checked, the sale price included non-cash payments, and you need to determine the value of these and add them to the figure in box 2.
- **If you didn't receive Form 1099-S,** refer to your real estate transaction documents for the total amount you received for your home.

Worksheet 2. **How To Figure Your Gain or Loss** ***Continued p. 2***

2. Determine your selling expenses. These are the costs directly associated with selling your home.	
a. Any sales commissions (for example, a real estate agent's sales commission)	a. ____________
b. Any advertising fees	b. ____________
c. Any legal fees	c. ____________
d. Any mortgage points or other loan charges you paid that would normally have been the buyer's responsibility	d. ____________
e. Any other fees or costs to sell your home	e. ____________
f. Add lines 2a through 2e. These are your **selling expenses**	f. ____________
3. Figure your "amount realized" (sale price minus selling expenses).	
Line 1f minus line 2f	**3.** ____________
4. Determine your "total basis" (the total amount you invested in your home). This includes what you paid for your home as well as other money you may have spent that added to its value.	
a. The amount you paid for your home (or if you built your home, the cost of the land). Include any down payment and any amount you borrowed to pay for the home. For cooperative apartments, include the value of the corporation stock you purchased. If you acquired your home through inheritance, gift, bargain sale, trade, or anything except a fair market purchase, see *Basis Adjustments—Details and Exceptions*.	a. ____________
b. Any settlement fees or closing costs you paid when you bought your home, except for financing-related costs (such as seller-paid points). The settlement statement should list the fees related to buying the home. See *Basis Adjustments—Details and Exceptions* and *Fees and Closing Costs*	b. ____________
c. Any real estate taxes or other costs you paid on behalf of the seller you bought your home from (and for which the seller never paid you back)	c. ____________
d. Any amounts you spent on construction or other improvements that are still part of your home at the time of sale (not including costs of maintenance and repairs). See *Basis Adjustments—Details and Exceptions*.	d. ____________
e. Any amounts you spent to repair damage to your home or the land on which it sits	e. ____________
f. Any special assessments for local improvements (such as special tax or condominium association assessments that aren't merely for repairs or maintenance)	f. ____________
g. Add lines 4a through 4f. This is your **total basis**	g. ____________

Worksheet 2. **How To Figure Your Gain or Loss *Continued p. 3***

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

a. Any depreciation you took or were allowed to take for use of your home for business or rental purposes . . . . . a. ______

b. Any casualty losses (such as flood or fire damage) you claimed as a deduction on a federal tax return . . . . . b. ______

c. Any insurance payments you received or expect to receive for casualty losses . . . . . c. ______

d. Any payments you received for granting an easement, conservation restriction, or right-of-way . . . . . d. ______

e. Any energy credits or subsidies that effectively paid you back for improvements you included in your total basis. See Basis Adjustments—Details and Exceptions . . . . . e. ______

f. Any adoption credits you claimed, or any nontaxable payments from an employer-sponsored adoption assistance program . . . . . f. ______

g. Any real estate taxes the seller paid on your behalf (and for which you never paid the seller back). If you reimburse the seller, it doesn't affect basis . . . . . g. ______

h. Any mortgage points the seller paid for you when you bought your home, if one of the following is true . . . . . h. ______

- You bought your home between December 31, 1991, and April 4, 1994, AND you deducted the points as home mortgage interest in the year paid, or
- You bought your home after April 3, 1994 (regardless of whether you deducted the points)

i. Any canceled or forgiven mortgage debt amount that was excluded before January 1, 2018, due to a bankruptcy or insolvency and that you didn't have to declare as income. (See Pub. 4681.) . . . . . i. ______

j. Any sales tax you paid on your home (such as for a mobile home or houseboat) and then claimed as a deduction on a federal tax return . . . . . j. ______

k. The value of any temporary housing the builder of your home provided for you . . . . . k. ______

- *Use this equation:* Contract price × Value of temporary housing ÷ (Value of temporary housing + Value of new home)

l. Any gain you postponed from the sale of a previous home sold before May 7, 1997 . . . . . l. ______

m. Add lines 5a through 5m. This is your **basis adjustment** . . . . . m. ______

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

Line 4g minus line 5m . . . . . **6.** ______

- If your **adjusted basis is less than zero** and you went through a mortgage workout or other process resulting in forgiveness or cancellation of mortgage debt ("discharge of qualified principal residence indebtedness"), don't count any portion of your canceled debt that is bringing your basis below zero.

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

Line 3 minus line 6 . . . . . **7.** ______

- If the **number is negative** (adjusted basis is greater than amount realized), you sold your home at a loss. You can't deduct this loss, but you don't need to pay any tax on the money you received from selling your home. Skip to Reporting Your Home Sale, later.
- If the **number is positive**, you sold your home at a gain. Skip to How Much Is Taxable?, later.

business or rental. If you took depreciation on your home on past tax returns, use the same business or rental percentage that you used in determining how much depreciation to take. If you didn't take depreciation on your home on past tax returns, compare the size of your business or rental space to the size of the whole property and express this as a percentage. For example, if you have a building with three equal-sized stories, and you live in the top two stories and use the ground floor for a store, then you are using $^{1}/_{3}$ of the property and your business percentage is 33.3%.

For each number on your "Total" worksheet, figure the business-related portion of that number and enter it on your "Business or Rental" worksheet. You may use different methods to determine the business portion of different numbers. Here are the three possible methods and the circumstances under which each method applies.

- **Dollar-amount method.** Where a figure consists of specific dollar amounts that relate to either the residence portion or the business portion of the property, the figure must be broken down by these dollar amounts. For example, if the figure for improvements to the property was $100,000, and all of that applied to the residence portion, then the business portion of the improvements would be zero.
- **"100% rule" for depreciation.** The first two items under line 5a and line 5b in Worksheet 2 are business depreciation items. Any figure for these two items is 100% a business figure.
- **Percentage method.** Where a figure applies to the property as a whole (such as the sale price), the business or rental portion is the figure multiplied by the business portion percentage you described earlier. Use the percentage method for all items that don't require the dollar-amount or depreciation methods.

The total you get on line 7 on your "Business" copy of Worksheet 2 is the gain or loss related to the business or rental portion of the property you sold.

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

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

Review the results of your "Home" and "Business" worksheets to determine your next step. When you have completed each worksheet, you will know whether you have a gain or loss on each part of your property. It is possible to have a gain on both parts, a loss on both parts, or a gain on one part and a loss on the other. See Table 1 to determine your next steps.

Table 1. **Does Your Home or Business Show a Gain or a Loss?**

IF...	THEN...
your "Home" worksheet shows a loss,	follow the instructions at the end of line 7, under Worksheet 2 for "If the number is negative."
your "Home" worksheet shows a gain,	skip to *How Much Is Taxable?* and Worksheet 3 to find out how much of the gain on your "Home" worksheet is taxable.
your "Business" worksheet shows a loss,	DON'T follow the instructions at the end of line 7, under Worksheet 2. Instead, report the loss from your "Business" worksheet on Form 4797, Sales of Business Property.
your "Business" worksheet shows a gain,	you can't exclude any of the gain shown on your "Business" worksheet. DON'T follow the instructions at the end of line 7, under Worksheet 2. Instead, report the gain from your "Business" worksheet on Form 4797.

How Much Is Taxable?

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

- You *didn't* acquire the property through a like-kind exchange in the past 5 years.
- You *aren't* subject to the expatriate tax.
- You owned the home for 2 of the last 5 years and lived in the home for 2 (1 if you become disabled) of the last 5 years leading up to the date of the sale.*
- For the 2 years before the date of the current sale, you didn't sell another home on which you claimed the exclusion.
- The sale *doesn't* involve the transfer of vacant land or a remainder interest.**

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

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

For a step-by-step guide to determining whether your home sale qualifies for the maximum exclusion, see ***Does***

Your Home Sale Qualify for the Exclusion of Gain? above.

If you qualify for an exclusion on your home sale, up to $250,000 ($500,00 if married and filing jointly) of your gain will be tax-free. If your gain is more than that amount, or if you qualify only for a partial exclusion, then some of your gain may be taxable. This section contains step-by-step instructions for figuring out how much of your gain is taxable. See Worksheet 3, later, for assistance in determining your taxable gain.

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

Recapturing Depreciation

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

Reporting Your Home Sale

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

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

Worksheet 3. **Determine If You Have Taxable Gain**

If you completed "Business" and "Home" versions of your gain/loss worksheet as described in *Business or Rental Use of Home*, earlier, complete this worksheet only for the "Home" version.

Section A. Determine your net gain. Complete this section only if you used any part of your home for business or rental purposes between May 6, 1997, and the date of sale. Otherwise, skip to Section B.		
Step 1	Enter your gain from line 7 of Worksheet 2.	______
Step 2	List the total of all depreciation deductions that you took or could have taken for the use of your home for business or rental purposes between May 6, 1997, and the date of sale	______
Step 3	Subtract the sum of Step 2 from the amount listed in Section A, Step 1. This is your net gain	______
Section B. Determine your non-qualified use gain. Complete this section only if there is a period, after the year 2008, when neither you nor your spouse (or your former spouse) used the property as a main home, and that period of non-use occurred during the 5-year period prior to the date of sale and before the time when you or your spouse (or your former spouse) used the property as a main home.* Otherwise, skip to Section C.		
*Note: If the period of non-use was for 1) 2 years or less and due to a change in employment, a health condition, or other "unforeseen circumstance" described in *Does Your Home Qualify for a Partial Exclusion of Gain?*, earlier; or 2) for 10 years or less and due to a "stop the clock" exception for certain military, intelligence, and Peace Corps personnel described in *Service, Intelligence, and Peace Corps Personnel*, earlier, then you may skip Section B.		
Step 1	Enter the amount from Section A, Step 1 or, if you skipped Section A, your gain from line 7 of Worksheet 2	______
Step 2	Enter the total number of days after 2008 when neither you nor your spouse (or former spouse) used the home as a main residence. This number is your non-use days	______
Step 3	Enter the total number of days you owned your home (counting all days, not just days after 2008). This number is your number of days owned	______
Step 4	Divide the non-use days by the days owned. This number is your non-residence factor	______
Step 5	Multiply the decimal from Section B, Step 4, by the amount listed in Section B, Step 1. This number is your non-qualified use gain.	______

Section C. Determine your gain that is eligible for exclusion.	
IF...	**THEN your gain that is eligible for exclusion is ...**
you skipped Sections A and B	your gain from line 7, under Worksheet 2.
you completed Section A but skipped Section B	your net gain, from Section A, Step 3.
you completed Section B (regardless of whether you completed Section A)	your non-qualified use gain, from Section B, Step 5.
Your gain that is eligible for exclusion is $ _______________	
Section D. Determine if you have taxable gain.	
IF...	**THEN ...**
your gain that is eligible for exclusion from Section C is less than or equal to your exclusion limit from Worksheet 1, Section C	your entire gain is excludible from your income and you have no gain to report on your tax return. The *Reporting Your Home Sale* section doesn't apply to you.
your gain that is eligible for exclusion from Section C is greater than your exclusion limit from Worksheet 1, Section C	some of your gain isn't excludible, and you may owe tax on it. See *Reporting Your Home Sale* for instructions on how to report the gain on your tax return.

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

Reporting Gain or Loss on Your Home Sale

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

- You have taxable gain on your home sale (or on the residential portion of your property if you made separate calculations for home and business) and don't qualify to exclude all of the gain.
- You received a Form 1099-S. If so, you must report the sale even if you have no taxable gain to report.
- You wish to report your gain as a taxable gain even though some or all of it is eligible for exclusion. You may wish to do this if, for example, you plan to sell another main home within the next 2 years and are likely to receive a larger gain from the sale of that property. If you choose to report, rather than exclude, your taxable gain, you can undo that choice by filing an amended return within 3 years of the due date of your return for the year of the sale, excluding extensions.

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

If ANY of the three bullets above is true, skip to *Determine whether your home sale is an installment sale*, later.

If you made separate gain/loss calculations for business and residence portions of your property, you may have to use Form 4797 to report the sale of the business or rental part. See *Business or Rental Use of Home*, earlier.

Determine whether your home sale is an installment sale. If you finance the buyer's purchase of your home (you hold a note, mortgage, or other financial agreement), you probably have an installment sale. You may be able to report any non-excludable gain on an installment basis. Use Form 6252, Installment Sale Income, to report the sale.

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

Report any interest you receive from the buyer. If the buyer is making payments to you over time (as when you provide seller financing), then you generally must report part of each payment as interest on your tax return.

Report the interest portion of the payment as ordinary income on Form 1040, line 2b. If the buyer is using the property as a first or second home, also report the interest on Schedule B (Form 1040), Interest and Ordinary Dividends, to Form 1040 and provide the buyer's name, address, and social security number. There is a $50 penalty per requirement for failing to meet any of these requirements.

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

Complete Form 8949, Sales and Other Dispositions of Capital Assets. Use Form 8949 to report gain from the sale or disposition of the personal use portion of your home if you can't exclude the gain.

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

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

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

Reporting Deductions Related to Your Home Sale

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

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

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

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

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

Example. The real estate tax on Dennis and Beth White's home was $620 for the year. Their real property tax year was the calendar year, with payment due August 3, 2017. They sold the home on May 6, 2017. Dennis and Beth are considered to have paid a proportionate share of the real estate taxes on the home even though they didn't actually pay them to the taxing authority.

Dennis and Beth owned their home during the 2017 real property tax year for 125 days (January 1 to May 5, the day before the sale). They figure their deduction for taxes as follows.

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

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

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

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

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

Reporting Other Income Related to Your Home Sale

Report as ordinary income on Form 1040 any amounts received from selling personal property. If you sold furniture, drapes, lawn equipment, a washer/dryer, or other property that wasn't a permanent part of your home, report the amount you received for the items as ordinary income. Report this amount on Schedule 1

(Form 1040), line 21 or 1040NR, line 21. The selling price of your home doesn’t include amounts you received for personal property sold with your home.

Report as ordinary income on Form 1040 any amounts received for sales of expired options to purchase your property. If you granted someone an option to buy your home and it expired in the year of sale, report the amount you received for the option as ordinary income. Report this amount on Schedule 1 (Form 1040), line 21 or 1040NR, line 21.

Report as ordinary income on Form 1040 applicable canceled or forgiven mortgage debt. If you went through a mortgage workout, foreclosure, or other process in which a lender forgave or canceled mortgage debt on your home, then generally you must report the amount of forgiven or canceled debt as income on your tax return. If you had a written agreement for the forgiveness of the debt in place before January 1, 2018, then you might be able to exclude the forgiven amount from your income.

Paying Back Credits and Subsidies

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

Determine any amounts you may have claimed as a first-time homebuyer tax credit. If you bought your home in 2008, you must pay back the credit unless you qualify for an exception.

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

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

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

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

How To Get Tax Help

If you have questions about a tax issue, need help preparing your tax return, or want to download free publications, forms, or instructions, go to IRS.gov and find resources that can help you right away.

Tax reform. Major tax reform legislation impacting individuals, businesses, and tax-exempt entities was enacted in the Tax Cuts and Jobs Act on December 22, 2017. Go to *IRS.gov/TaxReform* for information and updates on how this legislation affects your taxes.

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

The Volunteer Income Tax Assistance (VITA) program offers free tax help to people who generally make $55,000 or less, persons with disabilities, and limited-English-speaking taxpayers who need help preparing their own tax returns. The Tax Counseling for the Elderly (TCE) program offers free tax help for all taxpayers, particularly those who are 60 years of age and older. TCE volunteers specialize in answering questions about pensions and retirement-related issues unique to seniors.

You can go to IRS.gov to see your options for preparing and filing your return which include the following.

- **Free File.** Go to *IRS.gov/FreeFile* to see if you qualify to use brand-name software to prepare and *e-file* your federal tax return for free.
- **VITA.** Go to *IRS.gov/VITA*, download the free IRS2Go app, or call 800-906-9887 to find the nearest VITA location for free tax return preparation.
- **TCE.** Go to *IRS.gov/TCE*, download the free IRS2Go app, or call 888-227-7669 to find the nearest TCE location for free tax return preparation.

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

- Go to *IRS.gov/Help* for a variety of tools that will help you get answers to some of the most common tax questions.
- Go to *IRS.gov/ITA* for the Interactive Tax Assistant, a tool that will ask you questions on a number of tax law topics and provide answers. You can print the entire interview and the final response for your records.
- Go to *IRS.gov/Pub17* to get Pub. 17, Your Federal Income Tax for Individuals, which features details on tax-saving opportunities, 2018 tax changes, and thousands of interactive links to help you find answers to your questions. View it online in HTML, as a PDF, or download it to your mobile device as an eBook.
- You may also be able to access tax law information in your electronic filing software.

Getting tax forms and publications. Go to IRS.gov/Forms to view, download, or print all of the forms and publications you may need. You can also download and view popular tax publications and instructions (including the 1040 instructions) on mobile devices as an eBook at no charge. Or you can go to IRS.gov/OrderForms to place an order and have forms mailed to you within 10 business days.

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

- View the amount you owe, pay online, or set up an online payment agreement.
- Access your tax records online.
- Review the past 24 months of your payment history.
- Go to IRS.gov/SecureAccess to review the required identity authentication process.

Using direct deposit. The fastest way to receive a tax refund is to combine direct deposit and IRS *e-file*. Direct deposit securely and electronically transfers your refund directly into your financial account. Eight in 10 taxpayers use direct deposit to receive their refund. The IRS issues more than 90% of refunds in less than 21 days.

Refund timing for returns claiming certain credits. The IRS can't issue refunds before mid-February 2019 for returns that claimed the earned income credit (EIC) or the additional child tax credit (ACTC). This applies to the entire refund, not just the portion associated with these credits.

Getting a transcript or copy of a return. The quickest way to get a copy of your tax transcript is to go to IRS.gov/Transcripts. Click on either "Get Transcript Online" or "Get Transcript by Mail" to order a copy of your transcript. If you prefer, you can:

- Order your transcript by calling 800-908-9946, or
- Mail Form 4506-T or Form 4506T-EZ (both available on IRS.gov).

Using online tools to help prepare your return. Go to IRS.gov/Tools for the following.

- The *Earned Income Tax Credit Assistant* (IRS.gov/EITCAssistant) determines if you're eligible for the EIC.
- The *Online EIN Application* (IRS.gov/EIN) helps you get an employer identification number.
- The *IRS Withholding Calculator* (IRS.gov/W4App) estimates the amount you should have withheld from your paycheck for federal income tax purposes and can help you perform a "paycheck checkup."
- The *First Time Homebuyer Credit Account Look-up* (IRS.gov/HomeBuyer) tool provides information on your repayments and account balance.
- The *Sales Tax Deduction Calculator* (IRS.gov/SalesTax) figures the amount you can claim if you itemize deductions on Schedule A (Form 1040), choose not to claim state and local income taxes, and you didn't save your receipts showing the sales tax you paid.

Resolving tax-related identity theft issues.

- The IRS doesn't initiate contact with taxpayers by email or telephone to request personal or financial information. This includes any type of electronic communication, such as text messages and social media channels.
- Go to IRS.gov/IDProtection for information.
- If your SSN has been lost or stolen or you suspect you're a victim of tax-related identity theft, visit IRS.gov/IdentityTheft to learn what steps you should take.

Checking on the status of your refund.

- Go to IRS.gov/Refunds.
- The IRS can't issue refunds before mid-February 2019 for returns that claimed the EIC or the ACTC. This applies to the entire refund, not just the portion associated with these credits.
- Download the official IRS2Go app to your mobile device to check your refund status.
- Call the automated refund hotline at 800-829-1954.

Making a tax payment. The IRS uses the latest encryption technology to ensure your electronic payments are safe and secure. You can make electronic payments online, by phone, and from a mobile device using the IRS2Go app. Paying electronically is quick, easy, and faster than mailing in a check or money order. Go to IRS.gov/Payments to make a payment using any of the following options.

- *IRS Direct Pay*: Pay your individual tax bill or estimated tax payment directly from your checking or savings account at no cost to you.
- **Debit or credit card:** Choose an approved payment processor to pay online, by phone, and by mobile device.
- **Electronic Funds Withdrawal:** Offered only when filing your federal taxes using tax return preparation software or through a tax professional.
- **Electronic Federal Tax Payment System:** Best option for businesses. Enrollment is required.
- **Check or money order:** Mail your payment to the address listed on the notice or instructions.
- **Cash:** You may be able to pay your taxes with cash at a participating retail store.

What if I can't pay now? Go to IRS.gov/Payments for more information about your options.

- Apply for an *online payment agreement* (IRS.gov/OPA) to meet your tax obligation in monthly installments if you can't pay your taxes in full today. Once you complete the online process, you will receive immediate notification of whether your agreement has been approved.

- Use the *Offer in Compromise Pre-Qualifier* (*IRS.gov/OIC*) to see if you can settle your tax debt for less than the full amount you owe.

Checking the status of an amended return. Go to *IRS.gov/WMAR* to track the status of Form 1040X amended returns. Please note that it can take up to 3 weeks from the date you mailed your amended return for it to show up in our system and processing it can take up to 16 weeks.

Understanding an IRS notice or letter. Go to *IRS.gov/Notices* to find additional information about responding to an IRS notice or letter.

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

Watching IRS videos. The IRS Video portal (*IRSVideos.gov*) contains video and audio presentations for individuals, small businesses, and tax professionals.

Getting tax information in other languages. For taxpayers whose native language isn't English, we have the following resources available. Taxpayers can find information on IRS.gov in the following languages.

- *Spanish* (*IRS.gov/Spanish*).
- *Chinese* (*IRS.gov/Chinese*).
- *Vietnamese* (*IRS.gov/Vietnamese*).
- *Korean* (*IRS.gov/Korean*).
- *Russian* (*IRS.gov/Russian*).

The IRS TACs provide over-the-phone interpreter service in over 170 languages, and the service is available free to taxpayers.

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

What is TAS?

TAS is an ***independent*** organization within the IRS that helps taxpayers and protects taxpayer rights. Their job is to ensure that every taxpayer is treated fairly and that you know and understand your rights under the *Taxpayer Bill of Rights*.

How Can You Learn About Your Taxpayer Rights?

The Taxpayer Bill of Rights describes 10 basic rights that all taxpayers have when dealing with the IRS. Go to *TaxpayerAdvocate.IRS.gov* to help you understand *what these rights mean to you* and how they apply. These are ***your*** rights. Know them. Use them.

What Can TAS Do For You?

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

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

How Can You Reach TAS?

TAS has offices *in every state, the District of Columbia, and Puerto Rico*. Your local advocate's number is in your local directory and at *TaxpayerAdvocate.IRS.gov/Contact-Us*. You can also call them at 877-777-4778.

How Else Does TAS Help Taxpayers?

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

TAS also has a website, *Tax Reform Changes*, which shows you how the new tax law may change your future tax filings and helps you plan for these changes. The information is categorized by tax topic in the order of the IRS Form 1040. Go to *TaxChanges.us* for more information.

Low Income Taxpayer Clinics (LITCs)

LITCs are independent from the IRS. LITCs represent individuals whose income is below a certain level and need to resolve tax problems with the IRS, such as audits, appeals, and tax collection disputes. In addition, clinics can provide information about taxpayer rights and responsibilities in different languages for individuals who speak English as a second language. Services are offered for free or a small fee. To find a clinic near you, visit *TaxpayerAdvocate.IRS.gov/LITCmap* or see IRS Pub. 4134, *Low Income Taxpayer Clinic List*.

Index

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.