



Capital Gains on the Sale of Residence - Real Estate Tax Tips

You may qualify to exclude from your income all or part of any gain from the sale of your principal residence. Your principal residence is the one in which you live most of the time.

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)
- Lived in the home as your principal residence for at least 2 years (the use test)

GAIN

If you have a gain from the sale of your principal residence, you may be able to exclude up to \$250,000 of the gain from your income (\$500,000 on a joint return in most cases).

- If you can exclude all of the gain, you do not need to report the sale on your tax return
- If you have gain that cannot be excluded, it is taxable. Report it on IRS Schedule D (Form 1040)

LOSS

You cannot deduct a loss from the sale of your principal residence.

WORKSHEETS

Worksheets are included in IRS Publication No. 523, Selling Your Home to help you figure the:

- Adjusted basis of the home you sold
- Gain (or loss) on the sale
- Gain that you can exclude

REPORTING THE SALE

Do not report the sale of your principal residence on your tax return unless you have a gain and at least part of it is taxable. Report any taxable gain on IRS Schedule D (Form 1040).

MORE THAN ONE HOME

If you have more than one home, you can exclude gain only from the sale of your principal residence. You must pay tax on the gain from selling any other home. If you have two homes and live in both of them, your principal residence is ordinarily the one you live in most of the time.

EXAMPLE ONE:

You own and live in a house in the city. You also own a beach house, which you use during the summer months. The house in the city is your principal residence; the beach house is not.

EXAMPLE TWO:

You own a house, but you live in another house that you rent. The rented house is your principal residence.

BUSINESS USE OR RENTAL OF HOME

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

EXAMPLE:

On May 30, 1997, Amy bought a house. She moved in on that date and lived in it until May 31, 1999, when she moved out of the house and put it up for rent. The house was rented from June 1, 1999, to March 31, 2001. Amy moved back into the house on April 1, 2001, and lived there until she sold it on January 31, 2003. During the 5-year period ending on the date of the sale (February 1, 1998 - January 31, 2003), Amy owned and lived in the house for more than 2 years as shown in the table below.

Five Year Period	Used as Home	Used as Rental
2/1/98-5/31/99	16 months	
6/1/99-3/31/01		22 months
4/1/01-1/31/03	22 months	
	<u>38 months</u>	<u>22 months</u>

Amy can exclude gain up to \$250,000. However, she cannot exclude the part of the gain equal to the depreciation she claimed for renting the house.



California Title Company



Orange Coast Title Company



Equity Title



First Centennial Title Company of Nevada



Advantage Title