

CLIENT REPORT:

IRS Tax Tips: Selling Your Home

Dear Client:

The IRS has posted tax facts on selling a home as part of its Tax Tips series. These tax tips are designed to make homeowners aware that they may not have to pay additional income tax if they make a profit on the sale of their home. Here are some tax facts related to selling a home.

Capital Gain Exclusion. If you have a gain from the sale of your main home and you meet the ownership and use tests, you may be able to exclude up to \$250,000 (\$500,000 for joint filers) of the gain from your income. The exclusion may be claimed each time that you sell your main home, but generally no more often than once every two years.

Ownership and Use Tests. In general, you are eligible to exclude from income all or part of any gain from the sale of your main home if you have owned and used your home as your main home for a period aggregating at least two years out of the five years prior to the sale.

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

Reduced Exclusion. If you do not meet the requirements to qualify for the full exclusion, you may still qualify for a reduced maximum exclusion. However, you must sell your home for other specific reasons such as serious health issues, a change in place of employment, or certain unforeseen circumstances such as divorce or legal separation, natural or man-made disasters resulting in a casualty to your home, or an involuntary conversion of your home.

Reporting the Gain. Only the taxable portion of the gain, if any, is reported on Schedule D, Capital Gains and losses.

Loss. You cannot deduct a loss from the sale of your main home. However, if you have a loss on the sale and you receive a Form 1099-S, Proceeds from Real Estate Transactions, you must report the loss on Form 1040 Schedule D, even though the loss is not deductible.

Other factors that may affect the application of the rules for the exclusion include business use of the home, and the suspension of the five-year test period for military families. If you plan on selling your home in the near future, please give our office a call to discuss this exclusion and how you may qualify.

Sincerely yours,

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