Department of the Treasury

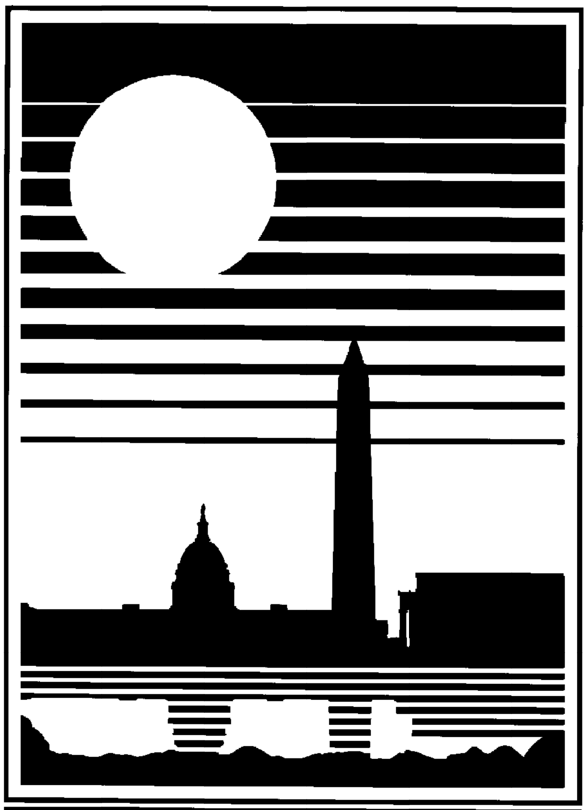
Internal Revenue Service

Publication 523
Cat. No. 15044W

Selling Your Home

For use in preparing

1996 Returns



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See *How To Get More Information* in this publication.

Contents

Important Changes for 1996

Service in hazardous duty area. The replacement period for postponing tax on any gain from the sale of your home is suspended if you served in a qualified hazardous duty area (Bosnia and Herzegovina, Croatia, and Macedonia). See *Replacement Period* under *Postponing Gain,* later, for more information.

Individual taxpayer identification number (ITIN). If you are a nonresident or resident alien who does not have and is not eligible to get a social security number (SSN), the IRS will issue you an ITIN. For details, see *Installment sale* under *How and When To Report.*

Important 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).

Combat zone service. The replacement period for postponing tax on any gain from the sale of your home is suspended if you served in the Persian Gulf Area combat zone. See *Replacement Period* under *Postponing Gain,* later, for more information.

Form 1099–S. Normally, the person responsible for closing the sale of a home (generally, the settlement agent) must report the sale to the IRS on Form 1099–S, *Proceeds From Real Estate Transactions.* That person must give you a copy of the information reported on Form 1099–S. He or she is not allowed to charge you separately for filing Form 1099–S but may take into account the cost of filing the form in deciding what to charge you for services.

Qualified mortgage bonds and mortgage credit certificates. If you sell your main home that was purchased or improved with federally subsidized financing, you may have to recapture part of the subsidy. See *Recapture of Federal Subsidy,* later.

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 Part I of Publication 936, *Home Mortgage Interest Deduction.*

Introduction

This publication explains how to treat any gain or loss from selling your main home (generally, the one in which you live). You must include any gain in your income unless you postpone or exclude all or part of it. See *Table 1* for an overview of postponing or excluding gain.

If you have a loss from the sale, it is a personal loss. You must report the sale on your return, but you cannot deduct the loss.

You must report the sale of your main home using Form 2119, *Sale of Your Home.* This is true whether you sell the home at a gain or a loss and whether or not you buy another main home.

Sales not covered. This publication does not cover the sale of your second home or your vacation home. For information on how to report those sales, see Publication 544, *Sales and Other Dispositions of Assets.* It also does not cover the sale of rental property. For information on selling your rental property, see Publication 527, *Residential Rental Property.*

Definitions. Many of the terms used in this publication, such as ''basis,'' ''postponing gain,'' and ''one-time exclusion '' are defined in the *Glossary* at the end of this publication.

Useful Items

You may want to see:

Publication

- ☐ **521** Moving Expenses
- ☐ **527** Residential Rental Property
- ☐ **530** Tax Information for First-Time Homeowners
- ☐ **544** Sales and Other Dispositions of Assets
- ☐ **551** Basis of Assets
- ☐ **587** Business Use of Your Home
- ☐ **936** Home Mortgage Interest Deduction

Form (and Instructions)

- ☐ **Schedule D (Form 1040)** Capital Gains and Losses
- ☐ **1040X** Amended U.S. Individual Income Tax Return
- ☐ **2119** Sale of Your Home
- ☐ **8822** Change of Address
- ☐ **8828** Recapture of Federal Mortgage Subsidy

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

Gain or Loss On the Sale

Terms you may need to know (see Glossary):

Adjusted basis
Adjusted sales price
Amount realized
Gain
Improvements
Postponing gain
Repairs
Selling expenses
Settlement fees (or closing costs)

If you sell your main home, you may have to pay tax on all or part of the gain from the sale. But if you replace the home and meet the conditions described later under *Gain on Sale,* you postpone paying the tax.

If you have a loss on the sale, you cannot deduct it.

More than one owner. If you and your spouse sell your jointly owned home and file a joint return, you figure and report your gain or loss as one taxpayer. If you file separate returns, each of you must figure and report your own gain or loss according to your ownership interest in the home. Your ownership interest is determined by state law.

If you and a joint owner other than your spouse sell your jointly owned home, each of you must figure and report 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.

How To Figure Gain or Loss

Gain or loss on the sale of your old home is figured in Part I of Form 2119. To figure the gain or loss, you must know the selling price, the amount realized, and the adjusted basis.

Selling price. The selling price (line 4 of Form 2119) is the total amount you receive for your home. It includes money, all notes, mortgages, or other debts assumed by the buyer as part of the sale, and the fair market value of any other property or any services you receive.

If you received a Form 1099–S, *Proceeds From Real Estate Transactions,* the total amount you received for your home (except for the fair market value of any property other than cash or notes or any services you received or will receive) should be shown in box 2. If you received or will receive any property other than cash or notes or any services as part of the sale, the value of these items is not shown on Form 1099–S. However, box 4 of that form should be checked.

The selling price of your home does not include amounts you received for personal property sold with your home. Personal property is

Table 1. **Two Ways To Avoid 1996 Tax on Gain from Sale of Your Main Home**

What To Do	How To Qualify	How You Benefit	How To Find Out More
1. Postpone Gain	You must buy (or build) and live in a new home within the replacement period.	You may not have to pay tax on all (or part) of your gain in 1996. (But you have to reduce the basis of your new home by the amount of the postponed gain. This will increase any gain on the later sale of that home.)	See *Postponing Gain* in this publication.
2. Exclude Gain	You must be age 55 or older on the date of sale. You must also meet ownership and use tests and must choose to take the exclusion.	You exclude up to $125,000 ($62,500 if married filing separately) of your gain. (But you can exclude gain only once in your lifetime after July 26, 1978.)	See *Exclusion of Gain* in this publication.
Any part of your gain that you do not postpone or exclude is taxable. You must include that part in your income.			

☐ CORRECTED (if checked)

FILER'S name, street address, city, state, and ZIP code	1 Date of closing 2 Gross proceeds $	OMB No. 1545-0997 **1996** Form **1099-S**	**Proceeds From Real Estate Transactions**
FILER'S Federal identification number / TRANSFEROR'S identification number TRANSFEROR'S name Street address (including apt. no.) City, state, and ZIP code	3 Address or legal description 4 Transferor received or will receive property or services as part of the consideration (if checked) . . . ► ☐		**Copy B** **For Transferor** This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this item is required to be reported and the IRS determines that it has not been reported.
Account number (optional)	5 Buyer's part of real estate tax $		

Form **1099-S** (Keep for your records.) Department of the Treasury - Internal Revenue Service

property that is not a permanent part of the home. Examples are furniture, draperies, and lawn equipment. Separately stated cash you received for these items should not be shown on Form 1099–S.

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. Include it in your gross income as wages on line 7 of Form 1040. For more information, see *How To Report* in Publication 521.

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 line 21 of Form 1040.

Selling expenses. Selling expenses (line 5 of Form 2119) include commissions, advertising, and legal fees. Loan charges paid by the seller, such as loan placement fees or "points," are usually a selling expense.

Amount realized. The amount realized (line 6 of Form 2119) is the selling price minus selling expenses.

Amount of gain or loss. If the amount realized is more than the home's adjusted basis (line 7 of Form 2119), the difference is your gain (line 8 of Form 2119). If the amount realized is less than the adjusted basis, the difference is your loss. See *Loss on Sale,* later.

To figure the adjusted basis of your property, see *Basis,* later.

Gain on Sale

You will generally be subject to tax on all of the gain if you do not buy and live in another main home. However, if you are age 55 or older, you may qualify to exclude all or part of the gain as explained later under *Exclusion of Gain.*

You ***postpone*** the tax on all or part of the gain if you buy and live in another main home and meet the conditions described in the following paragraphs.

Purchase price at least as much as sales price. Your entire gain on the sale of your home is not taxed at the time of the sale if, within ***2 years before*** or ***2 years after*** the sale, you buy and live in another main home that costs at least as much as the adjusted sales price (described later) of the old home. If you are on active duty in the Armed Forces, if you served in a combat zone, or if your tax home is outside the U.S., the 2-year period after the sale may be suspended. See *People Outside the U.S.* and *Members of the Armed Forces* under *Replacement Period,* later.

Purchase price less than sales price. If the purchase price of your new main home is less than the adjusted sales price of your old home and you buy and live in the new home within 2 years before or 2 years after the sale, the gain taxed in the year of the sale is the lesser of:

1) The gain on the sale of the old home (reduced by any gain you exclude as explained later under *Exclusion of Gain*), or
2) The amount by which the adjusted sales price of the old home is more than the purchase price of the new home.

Source of funds to buy home. You need not use the same funds received from the sale of your old home to buy or build your new home. For example, you can use less cash than you received by increasing the amount of your mortgage loan and still postpone the tax on your gain.

CAUTION **You may owe estimated tax.** *If you have a taxable gain from the sale of your home and you do not plan to replace it, or if you do not meet the requirements for postponing tax on the gain, you may have to make estimated tax payments. For more information, see Publication 505,* Tax Withholding and Estimated Tax.

Loss on Sale

You ***cannot*** deduct a loss on the sale of your home. It is a personal loss. However, you must report the sale on Form 2119. The loss has no effect on the basis of any new home.

Payment by employer. You must include in income any amount your employer pays you for a loss on the sale of your home or for expenses of the sale when you transfer to a new location. Do **not** include the payment as part of the selling price. Include it in your gross income as wages on line 7 of Form 1040. For more information, see *How To Report* in Publication 521.

Special Situations

The paragraphs that follow explain how to determine your gain or loss if you trade one home for another one or if your home is foreclosed on, repossessed, or abandoned. Transfers of a home to your spouse are also covered here.

Trading homes. If you trade your old home for another home, treat the trade as a sale and a purchase. The cost of the new home, for purposes of postponing gain, is its fair market value.

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 house priced at $80,000 (its fair market value). You also paid $30,000 cash for the new home. You are considered to have sold your old home for $50,000 and to have had a gain of $9,000 ($50,000 − $41,000). Because you replaced it with a new home costing more than the sales price of the old one, you must postpone the tax on the gain. The basis of your new home is $71,000 ($80,000 cost − $9,000 gain not currently taxed).

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

Foreclosure or repossession. If your home was foreclosed on or repossessed, you have a sale that you must report on Form 2119. If the sale resulted in a taxable gain, also report it on Schedule D (Form 1040).

You figure the gain or loss from the sale in generally the same way as a gain or loss from any sale. But the amount of your gain or loss depends, in part, on whether you were personally liable for repaying the debt secured by the home.

Not personally liable for debt. If you were not personally liable for repaying the debt secured by the home, your amount realized includes the full amount of debt canceled by the foreclosure or repossession. Figure your gain or loss on Form 2119.

Personally liable for debt. If you were personally liable for repaying the debt secured by the home and the debt is canceled, your amount realized includes the amount of the debt canceled by the foreclosure or repossession, up to the home's fair market value. Figure your gain or loss on Form 2119.

In addition to any gain or loss figured on Form 2119, you may have ordinary income. If the canceled debt is more than the home's fair market value, you have ordinary income equal to the difference. Report that income on line 21, Form 1040. However, the income from cancellation of debt is not taxed to you if the cancellation is intended as a gift, or if you are insolvent or bankrupt. For more information on insolvency or bankruptcy, see Publication 908, *Bankruptcy Tax Guide.*

Form 1099–A and Form 1099–C. Generally, you will receive Form 1099–A, *Acquisition or Abandonment of Secured Property,* from your lender. This form will have the information you need to determine the amount of your gain or loss and whether you have any ordinary income from cancellation of debt. If your debt is canceled, you may receive Form 1099–C, *Cancellation of Debt,* instead of Form 1099–A.

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

Abandonment. If you abandon your home, you may have ordinary income. If the abandoned home secures a debt for which you are personally liable and the debt is canceled, you have ordinary income equal to the amount of canceled debt.

If the home is secured by a loan and the lender knows the home has been abandoned, the lender should send you Form 1099–A or Form 1099–C. See *Foreclosure or repossession*, earlier, for information about those forms. If the home is later foreclosed on or repossessed, gain or loss is figured as explained in that discussion.

Transfer to spouse. If you transfer your home to your spouse, or to your former spouse incident to your divorce, you generally have no gain or loss (see the *Exception,* later). This is true even if you receive cash or other consideration for the home. Therefore, the rules explained in this publication do not apply. You do not have to file Form 2119.

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 and do not need to file Form 2119.

If you buy or build a new home, its basis will not be affected by your transfer of your old home to your spouse, or to your former spouse incident to divorce. The basis of the home you transferred will not affect the basis of your new home.

Exception. These rules do not apply if your spouse or former spouse is a nonresident alien. In that case, the rules in this publication apply and you must file Form 2119.

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

Basis

You will need to know your basis in your home as a starting point for determining any gain or loss when you sell it. Your basis in your home is determined by how you got the home. Your basis is its cost if you bought it or built it. If you got it in some other way, its basis is either its fair market value when you received it or the adjusted basis of the person you received it from.

While you owned your home, you may have made adjustments (increases or decreases) to the basis. This ***adjusted basis*** is used to figure gain or loss on the sale of your home.

To figure your adjusted basis, you can use the *Adjusted Basis of Home Sold Worksheet* in the Form 2119 instructions. A filled-in example of that worksheet is included in the comprehensive *Example* later in this publication.

Table 2 in this publication explains how to use the worksheet in certain special situations.

Cost As Basis

The cost of property is the amount you pay for it in cash or other property.

Purchase. If you buy your home, your basis is its cost to you. This includes the purchase price and certain settlement or closing costs. Your cost 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.

Seller-paid points. If you bought your home after April 3, 1994, you must reduce the basis of your home by any points the seller paid. If you bought your home after 1990 but before April 4, 1994, you must reduce your basis by the amount of seller-paid points only if you chose to deduct them as home mortgage interest in the year paid.

If you must reduce your basis by seller-paid points and you use the *Adjusted Basis of Home Sold Worksheet* to figure your adjusted basis, enter the seller-paid points on line 2 of the worksheet.

Settlement fees or closing costs. When buying your home, you may have to pay settlement fees or closing costs in addition to the contract price of the property. You can include in your basis the settlement fees and closing costs that are for buying the home. You cannot include in your basis the fees and costs that are for getting a mortgage loan. A fee is for buying the home if you would have had to pay it even if you paid cash for the home.

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 the basis of your property are:

1) Abstract fees (sometimes called 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) Surveys,
6) Transfer taxes,
7) Owner's title insurance, and
8) Any amounts the seller owes that you agree to pay, such as back taxes or interest, recording or mortgage fees, charges for improvements or repairs, and sales commissions.

Some settlement fees and closing costs ***not*** included in your basis are:

1) Fire insurance premiums.
2) Rent for occupancy of the house before closing.
3) Charges for utilities or other services relating to occupancy of the house before closing.
4) Any item that you deducted as a moving expense (settlement fees and closing costs incurred after 1993 cannot be deducted as moving expenses).
5) Charges connected with getting a mortgage loan, such as:
   a) Mortgage insurance premiums (including VA funding fees).
   b) Loan assumption fees,
   c) Cost of a credit report, and
   d) Fee for an appraisal required by a lender.
6) Fees for refinancing a mortgage.

See *Settlement fees or closing costs* under *How To Determine Cost of New Home,* later,

Table 2. **How To Use the *Adjusted Basis of Home Sold Worksheet* in Special Situations**

If you use the *Adjusted Basis of Home Sold Worksheet* in the Form 2119 instructions and any of the situations described below apply to you, follow these instructions.

Situation	**Instructions**
You inherited your home.	Skip lines 1-4 of the worksheet. Find your basis using the rules under *Home received as inheritance*. Enter the amount of your basis on line 5 of the worksheet. Then fill out the rest of the worksheet.
You received your home as a gift.	Find your basis using the rules under *Home received as gift* and enter it on line 1 of the worksheet. If you can add any federal gift tax to your basis, enter that amount on line 4g of the worksheet. Add the amounts on lines 1 and 4g and enter the total on line 5 of the worksheet. Then fill out the rest of the worksheet. You will need to fill out a second worksheet if: 1) You fill out a worksheet using the donor's adjusted basis as your basis and then figure that you had a loss on the sale, and 2) The donor's adjusted basis was more than the fair market value of the home when it was given to you. If both of these apply to you, fill out a second worksheet using the home's fair market value at the time of the gift as your basis. Use the adjusted basis from this second worksheet to figure your loss. However, see *Neither gain nor loss.*
You received your home in a trade.	Find your basis using the rules under *Home received in trade*. Enter the amount of your basis on line 1 of the worksheet. Then fill out the rest of the worksheet. But if you received your home in a trade for your previous home and had a gain on the trade that you postponed using a Form 2119, enter on line 1 of the worksheet the adjusted basis of the new home from that Form 2119.
You built your home.	Add the purchase price of the land and the cost of building the home. Enter that total on line 1 of the worksheet. Then fill out the rest of the worksheet. See *Construction* for details. However, if you filed a Form 2119 to postpone gain on the sale of a previous home, enter on line 1 of the worksheet the adjusted basis of the new home from that Form 2119. Then fill out the rest of the worksheet.
You received your home from your spouse.	Skip lines 1-4 of the worksheet. Find your basis using the rules under *Home received from spouse.* Enter the amount of your basis on line 5 of the worksheet. Then complete the rest of the worksheet. If you owned a home jointly with your spouse and your spouse transferred his or her interest in the home to you, you will have to fill out two worksheets. When filling out the first worksheet, do not make any adjustments to basis for events that took place after the transfer. Multiply the amount on line 15 of that worksheet by one-half (0.5) to get the adjusted basis of your half interest at the time of the transfer. Then use the rules under *Home received from spouse* to find the basis for the half interest that was owned by your spouse. Add these two amounts (the adjusted basis of each half interest) and enter the total on line 5 of a second worksheet. Complete the rest of that worksheet, making adjustments to basis only for events that took place after the transfer.
You owned your home jointly with your spouse who died.	If you owned your old home jointly with your deceased spouse, you will have to fill out two worksheets. When filling out the first worksheet, do not make any adjustments to basis for events that took place after your spouse's death. Multiply the amount on line 15 of that worksheet by one-half (0.5) to get the adjusted basis of your half interest on the date of death. Then use the rules under *Surviving spouse* to find the basis for the half interest that was owned by your spouse. Add these two amounts (the adjusted basis of each half interest) and enter the total on line 5 of a second worksheet. Complete the rest of that worksheet, making adjustments to basis only for events that took place after your spouse's death. However, if your permanent home is in a community property state, you generally need to fill out only one worksheet. Find your basis using the rules under *Community property.* Skip lines 1-4 of the worksheet. Enter the amount of your basis on line 5 of the worksheet. Then fill out the rest of the worksheet, making adjustments to basis only for events that took place after your spouse's death.
Your home was ever damaged as a result of a casualty.	Enter on line 8 of the worksheet any amounts you spent to restore the home to its condition before the casualty. Enter on line 13 any insurance reimbursements you received for casualty losses. Also enter on line 13 any deductible casualty losses not covered by insurance.

for information about the fees and costs (real estate taxes and mortgage interest, including points) that you may be able to deduct.

Construction. If you contracted to have your house built on land you own, your basis is the cost of the land plus the amount it cost you to complete the house. This includes the cost of labor and materials, or the amounts paid to the contractor, and any architect's fees, building permit charges, utility meter and connection charges, and legal fees directly connected with building your home. 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 the basis by points the seller paid for you. For more information, see *Seller-paid points* and *Settlement fees or closing costs,* earlier.

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 the value of your own labor, or any other labor you did not pay for, in the cost of the house.

Cooperative apartment. Your basis in the apartment is usually the cost of your stock in the co-op housing corporation, which may include your share of a mortgage on the apartment building.

Condominium. Your basis is generally its cost to you.

Basis Other Than Cost

Sometimes you must use a basis other than cost, such as fair market value. For a complete discussion of basis, see Publication 551.

Fair market value. Fair market value is the price at which the property would change hands between a willing buyer and a willing seller, neither having to buy or sell, and both having reasonable knowledge of the relevant facts. Sales of similar property, on or about the same date, may be helpful in figuring the fair market value of the property.

Home received as gift. If your home was a gift, its basis to you is the same as the donor's adjusted basis when the gift was made. However, if the donor's adjusted basis was more than the fair market value of the home when it was given to you, you must use that fair market value as your basis for measuring any loss on its sale.

Neither gain nor loss. If you use the donor's adjusted basis to figure a gain and get a loss, and then use the fair market value to figure a loss and get a gain, you have neither a gain nor a loss on the sale or disposition.

Federal gift tax. If you received your home as a gift ***before 1977*** and its fair market value was more than the donor's adjusted basis at the time of the gift, add to your basis any federal gift tax paid on the gift. However, do not increase the basis above the fair market value of the home when it was given to you.

If you received your home as a gift ***after 1976,*** add to your basis the part of the federal gift tax paid that is due to the net increase in value of the home. Figure this part by multiplying the total federal gift tax paid by a fraction. The numerator (top part) of the fraction is the net increase in the value of the home and the denominator (bottom part) is the fair market value of the home. The net increase in the value of the home is its fair market value minus the donor's adjusted basis.

Home received from spouse. You may have received your home from your spouse or from your former spouse incident to your divorce.

Transfers after July 18, 1984. If you received the home after July 18, 1984, you had no gain or loss on the transfer. Your basis in this home is generally 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 consideration.

If you owned a home jointly with your spouse and your spouse transferred his or her interest in the home to you, your basis in the half interest received from your spouse is generally 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, your basis in the home is generally its fair market value at the time you received it.

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

Home received as inheritance. If you inherited your home, its basis is its fair market value on the date of the decedent's death or the later alternate valuation date if that date was used for federal estate tax purposes. If an estate tax return was filed, the value listed there for the property generally 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 half interest owned by your spouse will be one-half of the fair market value on the date of death (or alternate valuation date). The basis in your half will remain one-half of the adjusted basis determined previously. Your new basis is the total of these two amounts.

Example. Your jointly owned home 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 fair market value of the community property becomes the basis of the entire property, including the portion belonging to the surviving spouse. For this to apply, at least half of the community 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.*

Home received in trade. If you acquired your home in a trade for other property, the basis of your home is generally its fair market value at the time of the trade. If you traded one home for another, you have made a sale and purchase. In that case, you may have realized a gain. See *Trading homes,* earlier, for an example of how the gain affects your basis.

Adjusted Basis

Adjusted basis is your basis ***increased*** or ***decreased*** by certain amounts.

To figure your adjusted basis, you can use the *Adjusted Basis of Home Sold Worksheet* in the Form 2119 instructions. A filled-in example of that worksheet is included in the comprehensive *Example* later in this publication. *Table 2* in this publication explains how to use the worksheet in certain special situations.

Increases to basis. These include any:

1) Improvements.
2) Additions.
3) Special assessments for local improvements.
4) Amounts spent after a casualty to restore damaged property.

Decreases to basis. These include any:

1) Gain from the sale of your old home on which tax was postponed.
2) Insurance payments for casualty losses.
3) Deductible casualty losses not covered by insurance.
4) Payments received for granting an easement or right-of-way.
5) Depreciation allowed or allowable if you used your home for business or rental purposes.
6) Residential energy credit (generally allowed from 1977 through 1987) claimed for the cost of energy improvements that you added to the basis of your home.
7) Energy conservation subsidy excluded from your gross income because you received it (directly or indirectly) from a public utility after December 31, 1992, to buy or install any energy conservation measure.

Energy conservation measure. This includes an installation or modification that is primarily designed either to reduce consumption of electricity or natural gas or to improve the management of energy demand for a home.

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

Examples. Putting a recreation room in your unfinished basement, adding another bathroom or bedroom, putting up a fence, putting in new plumbing or wiring, putting on a new roof, or paving your driveway are improvements.

For a list of some other examples of improvements, see *Table 3*.

Improvements no longer part of home. Your home's adjusted basis does not include the cost of any improvements that 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. They do not add to its value or prolong its life, and 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, however, if items that would otherwise be considered repairs are done as part of an extensive remodeling or restoration of your home.

RECORDS

Recordkeeping. You should keep records of your home's purchase price and purchase expenses. You should also save receipts and other records for all improvements, additions, and other items that affect the basis of your home. This includes any Form 2119 that you filed to report postponement of gain from the sale of a previous home.

Ordinarily, you must keep records for 3 years after the due date for filing your return for the tax year in which you sold, or otherwise disposed of, your home. But if you use the basis of your old home in figuring the basis of your new one, such as when you sell your old home and postpone tax on any gain, you should keep those records longer. Keep those records as long as they are needed for tax purposes.

Postponing Gain

Terms you may need to know (see Glossary):

Adjusted basis
Adjusted sales price
Amount realized
Basis
Date of sale
Fixing-up expenses
Gain
Improvements
Main home
Postponing gain
Repairs
Replacement period
Selling expenses
Settlement fees (or closing costs)

Generally, you ***must*** postpone tax on the gain on the sale of your main home if you buy and live in a new main home within the replacement period and it costs at least as much as the adjusted sales price of the old home. However, if you are age 55 or older and meet certain qualifications, no tax applies to the extent you choose to exclude the gain. See *Exclusion of Gain,* later.

This section of the publication explains the time allowed for replacement and how to determine the taxable gain, if any.

The tax on the gain is ***postponed, not forgiven.*** You subtract any gain that is not taxed in the year you sell your old home from the cost of your new home. This gives you a lower basis in the new home. If you sell the new home in a later year and again replace it, you may have to continue to postpone tax on your gain.

Example. You sold your home for $90,000 and had a $5,000 gain. Within the time allowed for replacement, you bought another home for $103,000 and moved into it. The $5,000 gain will not be taxed in the year of sale, but you must subtract it from the $103,000. This makes the basis of your new home $98,000. If you later sell the new home for $110,000, and you do not buy and live in a new home within the allowed time, you will be subject to tax on the $12,000 gain ($110,000 – $98,000) in the year of that sale.

Table 3. **Examples of Improvements**

Caution: Work you do (or have done) on your home that does not add much to either the value or the life of the property, but rather keeps the property in good condition, is considered a repair, not an improvement.

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

Main Home

Usually, the home you live in most of the time is your main home. The home you sell and the one you buy to replace it must both qualify as your main home.

Your main home can be a houseboat, a mobile home, a cooperative apartment, or a condominium.

Fixtures (permanent parts of the property) generally are part of your main home. Furniture, appliances, and similar items that are not fixtures generally are not part of your main home.

If you change your home to a rental property, it no longer qualifies as your main home. If you then sell it, you cannot postpone tax on any gain from the sale. See *Home changed to rental property,* later under *Old Home. Property used partly as your home and partly for business or rental* is also discussed later under *Old Home.*

Land. You may sell the land on which your main home is located, but not the house itself. In this case, you cannot postpone tax on any gain you have from the sale of the land.

Example. You sell the land on which your main home is located. Within the replacement period, you buy another piece of land and move your house to it. This sale is not considered a sale of your main home, and you cannot postpone tax on any gain on the sale.

More than one home. If you have more than one home, only the sale of your main home qualifies for postponing the tax. If you have two homes and live in both of them, your main home is the one you live in most of the time.

Example 1. You own and live in a house in town. You also own beach property, which you use in the summer months. The town property is your main home; the beach property is not.

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

Replacement Period

Your replacement period is the time period during which you must replace your old home to postpone any of the gain from its sale. It starts ***2 years before*** and ends ***2 years after*** the date of sale.

Example. On April 27, 1996, before you sell your old home, you buy and move into a new home that you use as your main home. You have until April 27, 1998, a period of 2 years, to sell your old home and postpone tax on any gain.

Occupancy test. You must physically live in the new home as your main home within the required period. If you move furniture or other personal belongings into the new home but do not actually live in it, you have not met the occupancy test.

No added time beyond the specified period is allowed. To postpone gain on the sale of your home, you must replace the old home and occupy the new home within the specified period. You are not allowed any additional time, even if conditions beyond your control keep you from doing it. For example, destruction of the new home while it was being built would not extend the replacement period. However, the replacement period may be suspended, as discussed later, for people outside the U.S. or members of the Armed Forces.

If you do not replace the home in time and you had postponed gain in the year of sale, you must file an amended return for the year of sale. You must include in your income the entire gain on the sale of your old home.

Also, if you began building your new home within the specified period, but for any reason were unable to live in it within 2 years, no more time for occupancy is allowed. You must report your entire gain on an amended return for the year of sale. See *Amended Return,* later.

People Outside the U.S.

The replacement period after the sale of your old home is suspended while you have your ***tax home*** (the place where you live and work) outside the U.S. This suspension applies only if your stay abroad begins before the end of the 2-year replacement period. The replacement period, plus the period of suspension, is limited to ***4 years*** after the date of sale of your old home.

Example. You sold your home on May 11, 1995. This began your replacement period. On September 11, 1995, you were transferred to a foreign country. You have used 4 months of your replacement period. From September 11, 1995, to June 10, 1997, when you return to the U.S., your replacement period is suspended. Your replacement period starts again on June 11, 1997, and ends on February 11, 1999 (20 months).

Married persons. If you are married, the suspension of the replacement period lasts while either you or your spouse has a tax home outside the U.S., provided both of you used the old and the new homes as your main home.

Tax home. Your tax home is the city or general area of your main place of business, employment, station, or post of duty. For your tax home to be outside the U.S., you must live and work there. It does not matter where your family lives. More information on a tax home outside the U.S. is in Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad.*

Combat zone service. The running of the replacement period (including the suspension if you live and work outside the U.S.) is suspended for any period you served in a combat zone (defined later under *Members of the Armed Forces*) in support of the Armed Forces, plus 180 days. This suspension applies even though you were not a member of the Armed Forces. It applies to Red Cross personnel, accredited correspondents, and civilians under the direction of the Armed Forces in support of those forces.

The rules for suspending the running of the replacement period and for applying that suspension to your spouse are the same as the suspension rules explained later under *Members of the Armed Forces* and its discussion, *Combat zone service.*

Members of the Armed Forces

The replacement period after the sale of your old home is suspended while you serve on extended active duty in the Armed Forces. You are on extended active duty if you are serving under a call or order for more than 90 days or for an indefinite period. The suspension applies only if your service begins before the end of the 2-year replacement period. The replacement period, plus any period of suspension, is limited to ***4 years*** after the date you sold your old home.

Example 1. You sold your home on May 1, 1994. This began your replacement period. You joined the Armed Forces on August 1, 1994. You have used 3 months of your replacement period (May, June, and July). Your active duty ends July 31, 1996. From August 1, 1994, to July 31, 1996, your replacement period is suspended. Your replacement period starts again on August 1, 1996, and you have until May 1, 1998 (21 months) to buy and live in your new home.

Example 2. You are a regular member of the Armed Forces and sold your home on June 5, 1995. If you remain in the Armed Forces, you postpone your gain from the sale of your old home only if you buy or build and live in another home by June 5, 1999.

Overseas assignment. The suspension of the replacement period after the sale of your old home is extended for up to an additional 4 years while you are stationed outside the U.S. This also applies while you are required to live in on-base quarters following your return from a tour of duty outside the U.S. In this case, you must be stationed at a remote site where the Secretary of Defense has determined that adequate off-base housing is not available.

The suspension can continue for up to 1 year after the last day you are stationed outside the U.S. or the last day you are required to reside in government quarters on base. However, the replacement period, plus any period of suspension, is limited to ***8 years*** after the date of sale of your old home.

If you qualify for the time suspension for members of the Armed Forces and have already filed an income tax return reporting gain from the sale of a home that can be further postponed, you can file Form 1040X to claim a refund. See *Amended Return,* later, for the time allowed for filing an amended return.

Example 1. You are a regular member of the Armed Forces and sold your home on May 1, 1992. During the 4 years from May 1, 1992, to May 1, 1996, you serve outside the U.S. When you return, you are stationed at a remote site and are required to live on base because off-base housing is not available. The time to replace your home is suspended:

1) While you are serving outside the U.S., plus
2) While you are required to reside on base after your return from the overseas assignment, plus
3) Up to 1 year.

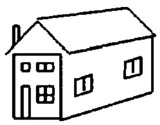
If the requirement that you live on base ends on October 31, 1996, the suspension period expires October 31, 1997. You then have the full 2-year replacement period to buy or build and occupy a new home. This is because you did not use any of that time before your overseas assignment began, and your replacement period plus your 5 1/2 year period of suspension is not more than 8 years. Your replacement period ends on October 31, 1999.

Example 2. The facts are the same as in Example 1 except the requirement that you live on base ends on October 31, 1997. The suspension period expires October 31, 1998. You then have less than the full 2-year replacement period to buy or build and occupy a new home. This is because your replacement period plus your 6 1/2 year period of suspension is limited to 8 years after the sale of your old home. Therefore, your replacement period ends on May 1, 2000.

Spouse in Armed Forces. If your spouse is in the Armed Forces and you are not, the suspension also applies to you if you owned the old home. Both of you must have used the old home and must use the new home as your main home. However, if you are divorced or separated while the replacement period is suspended, the suspension ends for you on the date of the divorce or separation.

Figure A. An Illustration of the Time Allowed for Replacement

This illustrates the time period during which you can replace your main home and postpone tax on the gain from its sale. It does not apply if you served in a combat zone (defined under *Members of the Armed Forces*).
Caution: The dates in this chart are for illustration purposes only. Your dates may be different.



	If you sold your former home on June 30, 1996:	
	Your time for replacement begins on:	**Your time for replacement ends on or before:**
Most taxpayers	June 30, 1994 (2 years before sale)	June 30, 1998 (2 years after sale)
Certain people outside the U.S. and members of the Armed Forces [1]	June 30, 1994 (2 years before sale)	June 30, 2000 (4 years after sale)
Certain members of the Armed Forces stationed overseas [2]	June 30, 1994 (2 years before sale)	June 30, 2004 (8 years after sale)

[1] **Your 2-year replacement period after the sale can be suspended while you live and work outside the U.S. or are on extended active duty in the Armed Forces. However, your replacement period, plus any period of suspension, cannot exceed 4 years after the date of sale of your old home. See *People Outside the U.S.* or *Members of the Armed Forces*.**

[2] **Your 2-year replacement period after the sale can be suspended while you are stationed outside the U.S. or required to live in on-base quarters after returning from a tour of duty outside the U.S. However, your replacement period, plus any period of suspension, cannot exceed 8 years after the date of sale of your old home. See *Overseas assignment* under *Members of the Armed Forces*.**

Combat zone service. The running of the replacement period (including any suspension) is suspended for any period you served in a combat zone.

Combat zone. The term ''combat zone'' means:

1) The Persian Gulf Area combat zone (effective August 2, 1990), and
2) The qualified hazardous duty area of Bosnia and Herzegovina, Croatia, and Macedonia, which is treated as a combat zone effective November 21, 1995.

Service outside combat zone. If you performed military service in an area outside the combat zone that was in direct support of military operations in the combat zone ***and*** you received special pay for duty subject to hostile fire or imminent danger, you are treated as if you served in the combat zone.

Also, you are treated as if you served in a combat zone if you performed services as part of Operation Joint Endeavor, were outside the United States, and were deployed away from your permanent duty station.

When suspension ends. This suspension ends 180 days after the later of:

1) The last day you were in the combat zone (or, if earlier, the last day the area qualified as a combat zone), or
2) The last day of any continuous hospitalization (limited to 5 years if hospitalized in the U.S.) for an injury sustained while serving in the combat zone.

Example. Sergeant James Smith, on extended active duty in an Army unit stationed in Virginia, had a gain from the sale of his home on June 4, 1991. He had not yet purchased a new home when he entered the Persian Gulf Area combat zone on September 4, 1991. He left the combat zone on May 4, 1992, and returned with his unit to Virginia. He remains on active duty in Virginia.

Sergeant Smith's replacement period began on June 4, 1991, the date he sold the home. His replacement period would have ended 4 years later, on June 4, 1995.

When he entered the combat zone on September 4, 1991, Sergeant Smith had used 3 months of the replacement period. The replacement period was then suspended for the time he served in the combat zone plus 180 days. The replacement period started again on November 1, 1992, after the end of the 180-day period (May 5, 1992, to October 31, 1992) following his last day in the combat zone. Sergeant Smith then has 45 months remaining in his replacement period (4 years minus the 3 months already used). His replacement period ends July 31, 1996 (45 months after October 31, 1992).

Spouse. The suspension for service in a combat zone generally applies to your spouse (even if you file separate returns). However, any suspension because of your hospitalization within the U.S. does not apply to your spouse. Also, the suspension for your spouse does not apply for any tax year beginning more than 2 years after the last day the area qualified as a combat zone.

More information. For information on other tax benefits available to those who served in a combat zone, get Publication 3, *Armed Forces Tax Guide.*

Amended Return

If you sell your old home and do not plan to replace it, you must include the gain in income for the year of sale. If you later change your mind, buy or build and live in another home within the replacement period, and meet the requirements to postpone gain, you will have to file an amended return (Form 1040X) for the year of sale to claim a refund.

You can file an amended return by the later of:

1) 3 years from the date you filed the return for the year of sale, or
2) 2 years from the date you paid the tax.

A return filed before the due date is treated as filed on the due date.

Extended replacement period. If you have an extended replacement period because you have your tax home outside the U.S. or are a member of the Armed Forces, the replacement period may go beyond the last date you can file an amended return claiming a refund for the year of sale. If there is a possibility you may change your mind and buy (or build) and live in another home during the extended replacement period, you should file a *protective claim* for refund of the tax you paid on the gain. File this claim on Form 1040X at the same time you file the return for the year of sale or anytime within the period allowed for filing an amended return.

Protective claim. To file a protective claim for refund, use Form 1040X and its instructions. However, you may leave lines 1 through 23 blank on the front of the form if you do not know the amount of your postponed gain. In *Part II* of the form:

1) Write ''Protective Claim,''
2) Explain that you paid tax on the gain from the sale of your old home,
3) State the amount of the gain you reported on your original return,
4) State that you have an extended replacement period and why this extended period applies to your particular situation, and
5) State that you are filing this protective claim because during your extended replacement period you may buy (or build) a new main home.

Old Home

Gain or loss on the sale of your old home is figured in Part I of Form 2119.

You use Part III of Form 2119 to figure the adjusted sales price, the taxable gain, and the postponed gain.

If the amount realized from the sale of your old home does not exceed the cost of your new home, you postpone your entire gain. In this case, you do not need to figure fixing-up expenses, discussed next.

Fixing-up expenses. Any fixing-up expenses you have are used in figuring the adjusted sales price. Fixing-up expenses (line 16 of Form 2119) are decorating and repair costs that you paid to sell the old home. For example, the costs of painting the home, planting flowers, and replacing broken windows are fixing-up expenses. Fixing-up expenses must meet all the following conditions. The expenses must:

1) Be for work done during the 90-day period ending on the day you sign the contract of sale with the buyer.

2) Be paid no later than 30 days after the date of sale.

3) Not be deductible in arriving at your taxable income.

4) Not be used in figuring the amount realized.

5) Not be capital expenditures or improvements.

Note. You deduct fixing-up expenses from the amount realized ***only*** in figuring the part of the gain that you postpone. You ***cannot*** deduct them in figuring the actual gain on the sale of the old home.

Adjusted sales price. Use the adjusted sales price of your old home (line 18 of Form 2119) to figure the part of your gain that you can postpone. The adjusted sales price is the amount realized minus any exclusion you claim (line 14 of Form 2119) and minus any fixing-up expenses you might have. Compare the adjusted sales price with the cost of your new home to find the amount of gain that you can postpone.

Example. Your old home had a basis of $55,000. You signed a contract to sell it on December 17. On the following January 7, you sold it for $71,400. Selling expenses were $5,000. During the 90-day period ending December 17, the date you signed the sales contract, you had the following work done. You paid for the work within 30 days after the date of sale.

Fixing-up expenses:	
Inside and outside painting	$800
Improvements:	
New venetian blinds and new water heater	$900

Within the required time, you bought and lived in a new home that cost $64,600. The gain postponed and not postponed, and the basis of your new home, are figured as follows:

Gain On Sale		
a) Selling price of old home	$71,400	
b) Minus: Selling expenses	5,000	
c) Amount realized on sale		$66,400
d) Basis of old home	$55,000	
e) Add: Improvements (blinds and heater)	900	
f) Adjusted basis of old home		55,900
g) Gain on sale [(c) minus (f)]		$10,500
Gain Taxed in Year of Sale		
h) Amount realized on sale	$66,400	
i) Minus: Fixing-up expenses (painting)	800	
j) Adjusted sales price		$65,600
k) Minus: Cost of new home		64,600
l) Excess of adjusted sales price over cost of new home		$ 1,000
m) Gain taxed in year of sale [lesser of (g) or (l)]		$ 1,000
Gain Postponed		
n) Gain on sale [line (g)]	$10,500	
o) Minus: Gain taxed [line (m)]	1,000	
p) Gain postponed		$ 9,500
Adjusted Basis of New Home		
q) Cost of new home [line (k)]	$64,600	
r) Minus: Gain postponed [line (p)]	9,500	
s) Adjusted basis of new home		$55,100

Property used partly as your home and partly for business or rental. You may use part of your property as your home and part of it for business or to produce income. Examples are a working farm on which your house is located, an apartment building in which you live in one unit and rent out the others, or a store building with an upstairs apartment in which you live. If you sell the whole property, you postpone only the tax on the part used as your home. This includes the land and outbuildings, such as a garage for the home, but not those used for the business or the production of income.

When you sell property used as your home and for your business, you should consider the transaction as the sale of two properties. To postpone the gain for the part of the selling price that is for your home (one property), you must reinvest an amount equal to that part in your new home. The same rule applies if you buy property for use as your home and for your business. Only the part of the purchase price for your home can be counted as the cost of purchasing the new home. See *New home used partly for business or rental,* later.

Example. You owned a four-unit apartment house. You lived in one unit and rented three units. You sold the apartment house, and you bought and lived in a new home. You did not replace the rental property. Your records show:

Apartment house:	
Cost	$ 80,000
Capital improvements	20,000
Basis (cost plus improvements)	$100,000
Minus: Depreciation (on 3 rented units only)	40,000
Adjusted basis	$ 60,000
Selling price	$120,000
Selling expenses	$ 8,000
New home:	
Purchase price	$ 70,000

Because one-fourth of the apartment building was your home, you figure your postponed gain as follows:

	Personal (1/4)	Rental (3/4)
1) Selling price	$30,000	$90,000
2) Minus: Selling expenses	2,000	6,000
3) Amount realized (adjusted sales price)	$28,000	$84,000
4) Basis (cost plus improvements)	$25,000	$75,000
5) Minus: Depreciation	–0–	40,000
6) Adjusted basis	$25,000	$35,000
7) Gain [(3) minus (6)]	$ 3,000	$49,000
8) Gain not postponed		$49,000
9) Gain postponed	$ 3,000	

The gain of $49,000 on the three-fourths of the building that was rental property is subject to tax in the year of sale. Report this gain on Form 4797, *Sales of Business Property*. You postpone the gain on the one-fourth that was your home. This is because the $28,000 adjusted sales price of this one-fourth is less than the $70,000 cost of your new home. The basis of the new home is $67,000 ($70,000 cost – $3,000 postponed gain). Report only the part of the sale that represents your main home (one-fourth) on Form 2119.

Business use of your home. If, in the year of sale, you are entitled to deduct expenses for the business use of your home, you cannot postpone the gain on the part of the home used for business. For information on how to figure the business part, see *Business Part of Home Expenses* in Publication 587.

If, in the year of sale, you are ***not*** entitled to deduct expenses for the business use of your home, you may be able to postpone all your gain, even if you were entitled to deduct expenses for the business use of your home in earlier years.

Example 1. John Daniel is a self-employed music teacher. During the year he deducts expenses for the two rooms of his home used for his music lessons and his business office. He sold his home in November at a $16,000 gain, and he replaced it with a larger, more expensive home that same month.

Because John used his home for business in the year of sale, he cannot postpone all of his $16,000 gain on the sale of his home. He must treat the sale as the sale of two separate properties, as shown in the earlier example under *Property used partly as your home and partly for business or rental* .

Example 2. Susan Jones bought her home in 1971 for $40,000. She is a teacher and used part of her den to correct papers and prepare her lessons. She was allowed a deduction for the business use of her home on her tax returns from 1971 through 1975. However, since 1976 she has not taken the deduction because she decided to do her paperwork and lesson preparation at school and no longer uses her home for business.

In 1996, Susan sold her home for $80,000 and bought a new main home for $90,000. Because there was no business use of her home during the year of sale, she does not have to treat the sale as the sale of two properties. She can postpone the tax on the entire gain on the sale of her old home since she bought a more expensive home within the replacement period.

However, to figure her gain, Susan must adjust the basis of her old home by depreciation allowed or allowable for the business use of her home from 1971 through 1975.

Home changed to rental property. You cannot postpone tax on the gain on rental property, even if you once used it as your home. The rules explained in this publication generally will not apply to its sale. Gains are taxable and losses are deductible as explained in Publication 544, *Sales and Other Dispositions of Assets.*

Temporary rental of home before sale. You have not changed your home to rental property if you temporarily rented out your old home before selling it, or your new home before living in it, as a matter of convenience or for another nonbusiness purpose. You can postpone the tax on the gain from the sale if you meet the requirements explained earlier.

Example. In January your employer tells you of your transfer to New Jersey in April. You try to sell your home before you leave, but you have not sold it when you move in April. In May you buy and occupy a new main home in New Jersey and rent out your old home, while still trying to sell it. In October you sell your old home. Although you temporarily rented out your old home, it is still considered to be your main home. Therefore, you may be able to postpone tax on the gain on the sale of the old home.

For information on how to treat the rental income you receive, see Publication 527.

Failed attempt to rent home. If you place your home with a real estate agent for rent or sale and it is ***not*** rented, it is not considered business property or property held for the production of income. The postponement of gain rules explained in this publication will apply to the sale.

Rental property last used as main home. Special rules apply to a gain from the sale of certain rental property. Under these rules, part or all of the gain is treated as ordinary income, up to the amount of ''additional depreciation.''This is called ''depreciation recapture.'' The part of the gain that is ordinary income cannot qualify for capital gain treatment.

The depreciation recapture rules do ***not*** apply to property that you changed from rental property to your main home before selling it. Instead, you have one of two options:

1) If you postpone gain under the rules described in this publication, you carry over the depreciation adjustments and the additional depreciation to the new home. If you later change your new home to rental property and then dispose of it, you may have to recapture depreciation on the old home as ordinary income.

2) If you do not postpone gain under the rules in this publication, you treat all of the gain as capital gain.

For more information about depreciation recapture, see Chapter 4 of Publication 544, *Sales and Other Dispositions of Assets* .

Rental property sold by persons age 55 or older. The depreciation recapture rules described earlier under *Rental property last used as main home* do not apply if you were age 55 or older when you sold or otherwise disposed of rental property, and you owned and used that property as your main home at least 3 years out of the last 5 years. It does not matter whether, during your use of the property as your main home, you used all or part of it for rental purposes during vacations or seasonal absences.

This rule applies even if you do not choose to exclude the gain from your gross income under the rules explained later under *Exclusion of Gain*. Instead, if you qualify, all the gain will be treated as capital gain, not ordinary income.

Condemned property. If your home is condemned for public use and you have a gain, you can postpone the tax on the gain in one of two ways. You can postpone the tax under the rules explained in this publication or under the rules for a forced sale by condemnation. The replacement periods may differ for each treatment. You should compare them before deciding which rules to follow.

Rules for forced sale. If you treat the transaction as a forced sale, you must buy replacement property that costs at least as much as the amount realized from the forced sale. The replacement period begins on the earlier of:

1) The date the condemned property was disposed of, or

2) The date condemnation was threatened.

The replacement period generally ends 2 years after the close of the first tax year in which you realize any part of the gain on the condemnation.

Example. You are a calendar year taxpayer. You were notified by the city council on March 6, 1994, of its plan to acquire your property, by condemnation if necessary. On June 3, 1996, when your property had an adjusted basis of $40,000, the city condemned the property and paid you $50,000. Your replacement period started on March 6, 1994, the date you were notified of the plan to condemn the property. Because you did not dispose of the property until 1996, your replacement period ends on December 31, 1998. This is 2 years after the last day of the year in which you realized the gain.

More information. Condemnations are discussed in detail in Chapter 1 of Publication 544 under *Involuntary Conversions*.

Gain on casualty. The tax on a gain from a fire, storm, or other casualty cannot be postponed under the rules explained in this publication, but may be postponed under the rules explained in Publication 547, *Casualties, Disasters, and Thefts (Business and Nonbusiness).*

Property taxes. You and the buyer must deduct the property taxes on your old home for the year of sale according to the number of days in the real property tax year that each owned the home. You are treated as paying the taxes up to, but not including, the date of sale. The buyer is treated as paying the taxes beginning with the date of sale. You can deduct, as an itemized deduction in the year of sale, the taxes you are treated as paying. It does not matter what part of the taxes you actually paid.

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 basis in the property.

The information reported (generally by the settlement agent) to the IRS and seller of the home on Form 1099–S, *Proceeds From Real Estate Transactions* , must include (in box 5 of the form) the part of any real estate tax that the buyer can deduct. 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.

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.

New Home

For purposes of postponing gain, this section explains:

1) What qualifies as a new home,

2) How to determine the cost of your new home, and

3) The rules that apply if and when you later sell your new home.

What Qualifies as a New Home

Your new home must be your main home. See *Main Home,* earlier.

You must include in income any gain from the sale of your old home if you replace that home with property that is not your main home.

New home outside the U.S. A new home outside the U.S. qualifies as a new home for purposes of postponing gain. You must buy or build and live in the new home as your main home within the time allowed for replacement.

Retirement home. You have not purchased a new home if you sell your home and invest the proceeds in a retirement home project that gives you living quarters and personal care but does not give you any legal interest in the property. Therefore, you must include in income any gain on the sale of your home. However, if you are 55 or older, see *Exclusion of Gain,* later.

Title to new home not held by you or spouse. You have not purchased a new home if you reinvest the proceeds from the sale of your old home in a home in which neither you nor your spouse holds any legal interest. For example, if someone else (such as your child) holds the title to the new home, you cannot postpone the gain from the sale of your old home.

More than one new home bought in 2-year period. If you buy (or build) and live in more than one main home during the 2–year replacement period, only the last one can be treated as your new main home to determine whether you must postpone the gain from the sale of the old home.

However, there is an exception to this rule if you sell a new home (other than the last one you used as your main home during the replacement period) because of a work-related move. If the exception applies, then the home you sold because of the work-related move is treated as your new home for purposes of whether you must postpone gain on the sale of the old home. For details, see *New home sold in 2-year period,* later under *New Home Later Sold At Gain* .

How To Determine Cost of New Home

You need to know the cost of your new home to figure the gain taxed and the gain on which tax is postponed on the sale of your old home. The cost of your new home includes costs incurred within the replacement period (beginning 2 years before and ending 2 years after the date of sale) for the following items:

1) Buying or building the home.
2) Rebuilding the home.
3) Capital improvements or additions.

You cannot consider any costs incurred before or after the replacement period. However, if you are a person outside the U.S. or a member of the Armed Forces, you can include any costs incurred during the suspension period (discussed under *Replacement Period,* earlier).

Debts on new home. The cost of a new home includes the debts it is subject to when you buy it (purchase-money mortgage or deed of trust) and the face amount of notes or other liabilities you give for it.

Temporary housing. If a builder gives you temporary housing while your new home is being finished, you must reduce the contract price to arrive at the cost of the new home. 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.

Seller-paid points. If you bought your new home after April 3, 1994, you must subtract any seller-paid points from its cost in figuring how much of the gain from selling your old home is taxed. If you bought your new home after 1990 but before April 4, 1994, you must reduce its cost by the seller-paid points only if you chose to deduct them as home mortgage interest in the year paid.

Settlement fees or closing costs. The cost of your new home includes the settlement fees and closing costs that you can include in your basis. See *Settlement fees or closing costs* under *Basis,* earlier.

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

Deductible costs. If you itemize your deductions in the year you buy the house, you can deduct some of the costs you paid at closing, such as real estate taxes, mortgage interest, and ''points'' that are deductible as interest. You may also be able to deduct points paid by the seller at closing. For more information, see Publication 936 and Publication 530.

Real estate taxes. If you agree to pay taxes the seller owed on your new home (that is, taxes up to the date of sale), the taxes you pay are treated as part of the cost. You cannot deduct them as taxes paid. If the seller paid taxes for you (that is, taxes beginning with the date of sale), you can still deduct the taxes. If you do not reimburse the seller for your part of the taxes, you must reduce your basis in your new home by the amount of those taxes. For more information, see *Settlement or closing costs* under *Basis* in Publication 530.

New home used partly for business or rental. If you replace your old home with property used partly as your home and partly for business or rental, you consider only the cost of the part used as your home in determining the cost of your new home. You must compare the cost of this part to the adjusted sales price of the old home to determine the amount of gain taxed in the year of sale and the amount of gain on which tax is postponed.

Example. Your old home had a basis of $50,000. You sold it in September for a gain of $25,000. Your adjusted sales price is $75,000. In October, you bought a duplex house for $120,000. You live in half and rent the other half. Because only half of the cost of the duplex ($60,000) is considered an investment in a new main home, the amount of the proceeds not reinvested in a home is $15,000 ($75,000 − $60,000). Therefore, you are taxed on $15,000 of the $25,000 gain on the sale. You must postpone tax on $10,000 of the gain reinvested in your new home. The basis of your new home is $50,000 ($60,000 cost − $10,000 postponed gain). The basis of the rented part of the duplex is $60,000.

Inheritance or gift. If you receive any part of your new home as a gift or an inheritance, you cannot include the value of that part in the cost of the new home when figuring the gain taxed in the year of sale and the gain on which tax is postponed. However, you include the basis of that part in your adjusted basis to determine any gain when you sell the new home.

Example. Your father died in March 1995 and you inherited his home. Its basis to you is $62,000. You spent $14,000 to modernize the home, resulting in an adjusted basis to you of $76,000. You moved into the home in July 1995.

When your father died, you owned a home that you bought in 1991 for $60,000. You sell that home in 1996 for $65,000, at a gain of $5,000. You have fixing-up expenses of $200 on your old home.

To find the gain taxed in the year of the sale, you compare the adjusted sales price of the old home, $64,800 ($65,000 − $200), with the $14,000 you invested in your new home. The $5,000 gain is fully taxed because the adjusted sales price of the old home is more than the amount you paid to remodel your new home, and the difference between the two amounts is more than $5,000. For this purpose, you do not include the value of the inherited part of your property ($62,000) in the cost of your new home.

New Home Later Sold At Gain

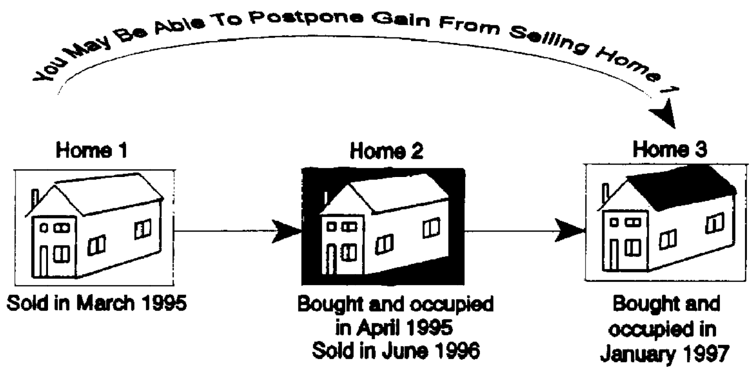
If you bought your present home and postponed tax on gain from a prior sale under the postponement-of-gain rules discussed earlier, you continue to postpone the tax if you replace your present home under those rules.

Example. In 1985 you sold your home, which you had owned since 1980, and bought and occupied a new one. The tax on the gain was postponed and the basis of the home you bought in 1985 was reduced by the gain you postponed. This year you sold the home you bought in 1985 and bought and moved into a more expensive one. You must postpone tax on the gain from selling the home you bought in 1985.

New home sold in 2-year period. If you postponed the gain on the sale of your old home, then sell your new home within 2 years after the sale of your old home, you generally cannot postpone the gain on the sale of the new home. Any gain on the sale of that new home is taxable; any loss is not deductible. Report

Figure B. Buying More Than One Home or Selling Home in a 2-Year Period

This illustrates the tax results when you buy more than one new home or sell a new home during the 2-year replacement period. For details, see *More than one new home bought in 2-year period* and *New home sold in 2-year period* in the text.
Caution: The dates given are for illustration purposes only.



- **You may be able to postpone gain on the sale of Home 1. Use Form 2119 to report the sale.**
- **You cannot postpone any gain on the sale of Home 2.* Use Schedule D to figure the gain and report the sale.**
- **You may be able to use the purchase of Home 3 (not Home 2) to postpone all, or part, of any gain on the sale of Home 1. Use Form 2119.**
- **If you reported these items in a different way on your 1995 or 1996 return, you may need to file an amended return. See *How and When To Report.***

*** Note: If you sold Home 2 because of a work-related move, see the *Exception* in the text.**

the gain or loss on Schedule D (Form 1040), not Form 2119. If you sold the home at a loss, write "Personal Loss " across columns (f) and (g) of line 1 or 9 of Schedule D, whichever is appropriate.

The following examples and *Figure B* illustrate this rule.

Example 1. You sold your first home in March 1995 for $120,000, and you had a $10,000 gain on the sale. You postponed the $10,000 gain because you bought and moved into a second home in April 1995 for $135,000. Your basis in the second home, as reported on the Form 2119 filed with your 1995 return, was $125,000 ($135,000 cost – the $10,000 postponed gain).

In June 1996 you sold the second home for $142,000 and you moved into an apartment. You purchased and moved into a third home in January 1997 for $146,000. You cannot postpone the gain on the June 1996 sale of your second home because it no longer qualifies as a replacement home ("new home") for postponing gain. This is because it was sold within 2 years after the March 1995 sale of your first home on which you postponed the gain. You must include the gain on the June 1996 sale in your 1996 income.

Following the rules under *More than one new home bought in 2–year period* under *What Qualifies as a New Home,* earlier, your replacement home for the first home you sold (in March 1995) is the third home you bought (in January 1997), the last main home you bought in the 2-year period. Since the $146,000 cost of that home is more than the $120,000 sales price of your first home, your $10,000 gain is still postponed. Your basis in your third home is $136,000 ($146,000 cost – the $10,000 postponed gain). You must file a new Form 2119 for 1995 to show your replacement home is the home you bought in January 1997.

Since you no longer treat your second home as the replacement for your first home, the basis of your second home is its $135,000 cost. The gain on its sale is $7,000 ($142,000 sales price – the $135,000 basis). Report it on Schedule D (Form 1040), not Form 2119.

Example 2. The facts are the same as in Example 1 except you purchased and moved into your third home in September 1997 rather than in January. Your second home is the replacement home for your first home (sold in March 1995). This is because it was the only home bought in the following 2-year period.

Although you bought another new main home within 2 years after selling your second home, you cannot postpone the gain on the June 1996 sale of your second home. This is because its sale was within 2 years of the March 1995 sale of your first home. You must report the $17,000 gain on the June 1996 sale of your second home ($142,000 sales price – $125,000 basis) on your 1996 tax return. Your basis in your third home (that you bought in September 1997) is its cost, $146,000.

Exception. The rules that normally apply when you buy more than one new home, or sell a new home, during the 2-year replacement period do not apply if you had to do that because of a ***work-related move.*** A "work-related move" is one for which you are allowed a deduction for moving expenses. To qualify for the deduction, the move must be closely related to the start of work, and you must meet the time and distance requirements explained in Publication 521.

If the exception applies, you postpone gain by treating each sale as though the 2-year rule did not apply.

Example. You buy two new homes and sell a new home within 2 years as shown below:

January 1996	You sell your house in **Chicago** at a gain.
February 1996	You buy and move into a more expensive house in **Memphis.**
March 1997	You sell your house in **Memphis** due to a transfer required by your employer.
March 1997	You buy and move into a more expensive house in **New York City.** The move meets the requirements for a moving expense deduction.

When you complete the 1996 Form 2119 for the sale of your house in Chicago, compare the cost of the home bought in Memphis with the adjusted sales price of the house in Chicago. This determines the gain you postpone, even though you bought and lived in another new main home (New York City in March 1997) within 2 years of the sale of your Chicago home.

Your 1997 Form 2119 will compare the adjusted sales price of the house in Memphis (sold March 1997) with the cost of the house in New York City. This determines the gain you postpone, even though you sold the new home in Memphis within 2 years of the sale of your Chicago home (sold January 1996).

Holding period. If you postponed tax on any part of the gain from the sale of your old home, you will be considered to have owned your new home for the combined period you owned both the old and the new homes. This may affect whether any taxable gain when you sell the new home is reported on Schedule D (Form 1040) as a short-term or long-term capital gain.

Certain Sales by Married Persons

This section explains how married persons figure their postponed gain in certain situations.

Home owned separately by one spouse. You or your spouse may have owned the old home separately, but title to the new one is in both your names as joint tenants. Or, you and your spouse may have owned the old home as joint tenants, and either you or your spouse owns the new home separately. In both of these cases, you can postpone the gain from the sale of the old home.

You and your spouse can figure the postponed gain, which reduces the basis of the new home, as if the two of you owned both homes jointly. To do this, both of you must meet the following requirements:

1) You used the old home as your main home and you use the new home as your main home.
2) You sign a statement that says: ''We agree to reduce the basis of the new home by the gain from selling the old home. ''

Both of you must sign the statement. You can make the statement in the bottom margin of Form 2119 or on a sheet attached to your tax return. If either of you does not sign the statement, you must report the gain in the regular way.

Example 1. You sell your home that is owned separately by you, but both you and your spouse use it as your main home. The adjusted sales price is $98,000, the adjusted basis is $86,000, and the gain on the sale is $12,000. Within 2 years you and your spouse buy a new home for $100,000. You move in immediately. The title is held jointly, and under state law, you each have a one-half interest. If you both sign the statement to reduce the basis of the new home, you postpone the gain on the sale as if you had owned both the old and new homes jointly. You and your spouse will each have an adjusted basis of $44,000 ($50,000 cost minus $6,000 postponed gain) in the new home.

If either of you does not sign the statement, your entire gain of $12,000 will be currently taxed, not postponed. This is because the adjusted sales price of the old home ($98,000) is greater than your part of the cost of the new home ($50,000). You and your spouse will each have a basis of $50,000 in the new home.

Example 2. The facts are the same as in Example 1 except that you and your spouse owned the old home jointly and each had a one-half interest under state law. Your spouse buys the new home with separate funds and takes title individually. If you both sign the statement, you and your spouse postpone the $12,000 gain from the sale of the old home. Your spouse will have an adjusted basis of $88,000 ($100,000 cost − $12,000 postponed gain) in the new home.

If either of you does not sign the statement, you will be taxed on your share of the gain on the old home, but your spouse will postpone tax on his or her share of the gain. This is because the cost of the new home was more than your spouse's share of the adjusted sales price of the old home. Your spouse's basis in the new home will be $94,000 ($100,000 cost − $6,000 postponed gain).

Example 3. The facts are the same as in Example 1 except that you own the old home individually and your spouse owns the new home individually. If you both sign the statement, you postpone the $12,000 gain from the sale of the old home. Your spouse will have an adjusted basis in the new home of $88,000.

If either of you does not sign the statement, your entire gain will be taxed, and your spouse's basis in the new home will be $100,000.

Deceased spouse. If your spouse dies after you sell your old home and before you purchase and occupy a new home, you can postpone the gain from the sale of the old home if the basic requirements are met, and:

1) You were married on the date your spouse died, and
2) You use the new home as your main home.

This applies whether title to the old home is in one spouse's name or held jointly.

If you sold your home and did not postpone the entire gain on the sale because of the death of your spouse (but otherwise qualified to do so under the rules explained in this publication), you can file an amended return (Form 1040X) to postpone the entire gain. See *Time to exclude gain,* later, under *Exclusion of Gain* and its discussion *How To Make and Revoke a Choice To Exclude Gain* for information about the time allowed to file an amended return.

Separate homes replaced by single home. If you and your spouse had two separate gains from the sales of homes that had been your separate main homes before your marriage, you may have to postpone the tax on both gains. This can happen if you jointly purchase a new home and one-half the amount of the cost of the new home is at least as much as the adjusted selling price of each of your old homes.

Each spouse must individually satisfy the requirements for postponing gain. Each spouse's share of the cost of the new home is the portion equal to his or her interest in the home under state law (generally one-half). This share of the cost must be equal to or greater than the adjusted sales price of his or her old home.

Example. Before your marriage, you sold your old home for an adjusted sales price of $90,000 and your spouse sold her old home for an adjusted sales price of $110,000. You each realized a gain of $15,000 from your sale. After your marriage, you jointly purchased a new home at a cost of $200,000 and moved into it. Under state law, you each have a one-half interest in the new home.

You must postpone your gain since you are treated as purchasing a new home for $100,000 (½ of $200,000).

For the year of sale, there is tax on $10,000 of your spouse's gain. This is the amount by which the adjusted sales price of her old home is more than her $100,000 share of the cost of the new home.

Report the sales of the old homes on separate Forms 2119.

Home replaced by two homes of spouses living apart. If you and your spouse have agreed to live apart, and you each buy and live in separate new homes, the postponement provisions apply separately to your gain and to your spouse's gain.

Example. You and your spouse owned your home jointly and used it as your main home. During the year, you agreed to live apart and sold the home for $98,000. The gain on the sale was $20,000. Under state law, each of you is entitled to one-half of the proceeds of the sale. Therefore, each of you had a $10,000 gain from the sale of your home.

Before the end of that year, you and your spouse also individually bought and lived in separate homes. The cost of each new home, $71,000 and $75,000 respectively, was more than your respective shares of the adjusted sales price of the old home. You and your spouse must postpone the tax on the $20,000 gain on the old home.

Your new home has an adjusted basis of $61,000 ($71,000 − ½ of $20,000 gain postponed). Your spouse's new home has an adjusted basis of $65,000 ($75,000 − ½ of $20,000 gain postponed).

You report the sale of your home on two Forms 2119 as if two separate properties were sold. You each report half of the sales price.

Only one spouse buys a new home. Even if your spouse doesn't buy a new home within the replacement period, you still should report on your Form 2119 only your share of any gain from the sale of the old home. You postpone your share of the gain if you meet all the requirements to do so, even though your spouse cannot postpone his or her share.

If you and your spouse originally filed a joint return for the year of sale, you and your spouse must file an amended joint return to report your spouse's share of the gain, which cannot be postponed. See *Divorce after sale* under *How and When To Report,* later.

How and When To Report

Terms you may need to know (see Glossary):

Adjusted sales price
Basis
Gain
Improvements
Postponing gain
Replacement period
Seller-financed mortgage

If you sold your home during the year, report the details of the sale as explained in this section. Report the sale even if you have a loss, you postponed the tax on the entire gain, or you have not purchased or moved into a new home.

Form 2119. Use Form 2119, *Sale of Your Home,* to report the sale of your old home and any purchase of a new one within the replacement period. File Form 2119 with your tax return for the year you sold your old home. If you file your return before buying a new home, you may also have to file a second Form 2119 when you do buy your new home. Several filled-in Forms 2119 are shown at the end of this publication.

Keep a copy of Form 2119 with your tax records for the year. Form 2119 is also a supporting document that shows how your new home's basis is decreased by the amount of any postponed gain on the sale of your old home. Therefore, you should also keep a copy of Form 2119 with your records for the basis of your new home.

Reporting a loss. You must report the sale of your main home even if you have a loss on the sale. Complete Part I of Form 2119 for the year in which the sale occurred. You cannot deduct the loss from your income.

If you report a loss on the sale, you do not have to file a second Form 2119 if you later purchase a new home. The loss on the sale has no effect on the basis of your new home.

Reporting exclusion of gain. If you qualify for the one-time exclusion of gain from selling your home, use Form 2119 to claim the exclusion. See *Exclusion of Gain,* later, for details.

Schedule D (Form 1040). If you report taxable gain on the sale of your main home, you will also have to file a Schedule D (Form 1040), *Capital Gains and Losses,* with your return.

Maximum tax rate on capital gains. Your net capital gain is taxed at a maximum tax rate of 28%, even if you have ordinary income that is taxed at a higher rate. If you have a net capital gain and part of your taxable income is taxed at a rate higher than 28%, figure your tax using the *Capital Gain Tax Worksheet* in the Form 1040 instructions.

New home purchased before return filed. If you buy and live in a new home before you file a return for the year of sale of your old home, complete Form 2119 and attach it to your return.

Reporting a gain. If your new home costs as much as or more than the adjusted sales price of your old home, you postpone the tax on the entire gain. You do not need to report the sale on Schedule D (Form 1040).

If the new home costs less than the adjusted sales price of the old home, the gain is taxed up to the amount of the difference. Report the taxable gain on Schedule D (Form 1040) for the year of sale.

New home not yet purchased. If you plan to replace your home but have not done so by the time your return for the year of sale is due, you must still report the sale. Complete Form 2119, Part I only, and attach it to your return for the year of sale.

If you do not plan to replace your home within the replacement period, you must complete Form 2119 and attach it to your return for the year of sale. If you have a gain on the sale, you will also need to complete Schedule D (Form 1040) and attach it to your return.

New home purchased after return filed. If you postponed gain from the sale of your old home and you buy and live in a new home after you file your return but within the replacement period, you should notify the IRS. File a second Form 2119 giving the date you first lived in the new home and its cost.

If you paid tax on the gain from the sale of your old home, but replaced it within the replacement period, see *New home purchased after tax paid on gain,* later.

New home costs at least as much as adjusted sales price. If you postponed gain from the sale of your old home, and your new home costs at least as much as the adjusted sales price of your old home, file a second Form 2119 by itself. Your address, signature, and the date are required on this Form 2119. If you filed a joint return for the year of sale, both you and your spouse must sign the Form 2119. File it with the Internal Revenue Service Center where you would file your next tax return.

New home costs less. If you postponed gain from the sale of your old home, and your new home costs less than the adjusted sales price of the old home, you must file an amended return (Form 1040X) for the year of the sale. Attach a second completed Form 2119 and Schedule D (Form 1040) showing the gain you must report. You will have to pay interest on any additional tax due on the amended return. The interest is generally figured from the due date of the return for the year of sale.

New home purchased after tax paid on gain. If you paid tax on the gain from the sale of your old home, and you buy and live in a new home within the replacement period, you must file an amended return (Form 1040X) for the year of sale of your old home. Complete a new Form 2119 and include it with your amended return. Report on Schedule D (Form 1040) any gain on which you cannot postpone the tax, and claim a refund of the rest of the tax.

Improvements made after tax paid on gain. If you replaced your old home but still had to pay tax on at least part of the gain from its sale, and you make improvements to your new home within the replacement period, fill out a new Form 2119 to refigure your taxable gain. If your refigured taxable gain is less than the gain you originally reported, file an amended return and include the new Form 2119.

No new home or no new home within replacement period. If you do not plan to replace your old home, you must complete Form 2119 and Schedule D (Form 1040) to report any gain. Attach them to your tax return for the year of the sale. The entire gain is taxable unless you are eligible to exclude all or part of the gain. See *Exclusion of Gain,* later.

You may have postponed gain on the sale of your old home because you planned to replace it. If you do not replace it within the replacement period, you will have to file a second Form 2119. Attach it to an amended return (Form 1040X) for the year of the sale. Include a Schedule D (Form 1040) to report your gain and any other appropriate schedule. For example, you would have to include Form 6252 to report an installment sale. You will have to pay interest on the additional tax due on the amended return. The interest is generally figured from the due date of the return for the year of sale.

Divorce after sale. If you are divorced after filing a joint return on which you postponed the gain on the sale of your home, but you do not use your share of the proceeds to buy or build a new home (and your former spouse does), you must file an amended joint return to report the tax on your share of the gain. If your former spouse refuses to sign the amended joint return, attach a letter explaining why your former spouse's signature is missing.

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 may have an installment sale. If the sale qualifies, you can report the part of the gain you cannot postpone on the installment basis.

Seller-financed mortgage. If you sell your home and hold a note, mortgage, or other financial agreement, the payments you receive generally consist of both interest and principal. You must report the interest you receive as part of each payment separately as interest income. 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 either Schedule B (Form 1040) or Schedule 1 (Form 1040A). 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 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, Form W–7 must be filed with the IRS. It usually takes about 30 days to get an ITIN.

If you have to include the buyer's SSN on your return and the buyer 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 do 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.*

Statute of limitations. The 3-year limit for assessing tax on the gain from the sale of your home begins when you give the IRS information that shows that:

1) You replaced your old home, and how much the new home cost,
2) You do not plan to buy and occupy a new home within the replacement period, ***or***
3) You did not buy and occupy a new home within the replacement period.

This information may be on the Form 2119 attached to your tax return for the year of the sale, or on a second Form 2119 filed later. File the second Form 2119 with the Service Center where you will file your next tax return. If needed, send an amended return for the year of the sale to include in income the gain that you cannot postpone.

Example

Frank and Evelyn Harris bought a new home and moved in on May 4, 1996. Their old home, which they purchased in 1980, was sold at a gain on May 6, 1996. The price of the new home was less than the adjusted sales price of the old home. In 1996 they must include in income their gain, up to the amount of the difference between the cost of the new home and the adjusted sales price of the old home. Neither Frank nor Evelyn was 55 or older on the date of the sale.

They report the sale on Form 2119 and include the taxable part of the gain on Schedule D (Form 1040). A filled-in Form 2119 showing this example appears later in this publication. A filled-in *Adjusted Basis of Home Sold Worksheet* is also shown.

Frank and Evelyn's records show the following:

1) Original cost of old home		$57,600
2) Settlement costs for old home:		
Legal fees for title search	$500	
Owner's title insurance	400	900
3) Improvements to old home (new porch, trees, fence)		4,500
4) Fixing-up expense (painting)		500
5) Selling price of old home		87,000
6) Commission paid on sale		5,200
7) Balance of mortgage on old home		38,000
8) Interest on old mortgage from 5/1/96 to 5/5/96, charged at settlement		53
9) 1996 real estate taxes on old home		860
10) Real estate taxes from 1/1/96 to 5/5/96 paid to buyer of old home		299
11) Refund of insurance on old home		40
12) Purchase price of new home		76,200
13) Title search and owner's title insurance for new home		1,000
14) 1996 real estate taxes on new home		975
15) Real estate taxes from 1/1/96 to 5/3/96 received from seller of new home		210
16) 1 year's fire insurance paid in advance on new home		200
17) Mortgage on new home		47,500

Frank and Evelyn use some items from their records to figure the gain on the sale of their old home or the adjusted basis of their new home. They use other items to figure the deductions allowable on Schedule A (Form 1040). Others they cannot use at all. For information on how to treat the mortgage interest and real estate taxes, see Publications 530 and 936.

They figure the gain on the sale of their old home, the part of the gain on which tax is postponed and the part on which it is not, and the adjusted basis of their new home in the following way (the items referred to appear in the preceding list):

Gain On Sale		
a) Selling price of old home (item 5)	$87,000	
b) Minus: Selling expenses (item 6)	5,200	
c) Amount realized on sale		$81,800
d) Minus: Adjusted basis of old home (items 1, 2, and 3)		63,000
e) Gain on sale		$18,800
Gain Taxed in 1996		
f) Amount realized on sale	$81,800	
g) Minus: Fixing-up expenses (item 4)	500	
h) Adjusted sales price		$81,300
i) Minus: Cost of new home (items 12 and 13)		77,200
j) Excess of adjusted sales price over cost of new home		$ 4,100
k) Gain taxed in 1996 [lesser of (e) or (j)]		$ 4,100
Gain Not Taxed in 1996		
l) Gain on sale [line (e)]	$18,800	
m) Minus: Gain taxed in 1996 [line (k)]	4,100	
n) Gain not taxed in 1996		$14,700
Adjusted Basis of New Home		
o) Cost of new home [line (i)]	$77,200	
p) Minus: Gain not taxed in 1996 [line (n)]	14,700	
q) Adjusted basis of new home		$62,500

Frank and Evelyn attach Form 2119 to their return showing this information. They also enter $4,100, the part of the gain taxed in 1996, on line 12 of Schedule D (Form 1040).

Exclusion of Gain

Terms you may need to know (see Glossary):

Adjusted basis
Basis
Gain
Main home
One-time exclusion

This section discusses how to exclude from gross income all or part of your gain from the sale of your main home if you meet certain age, ownership, and use tests at the time of the sale. This is a one-time exclusion of gain for sales after July 26, 1978.

The decision of when to take the exclusion depends on many factors. You will want to consider your personal tax and financial situation before deciding when to take the one-time exclusion.

If you meet the requirements discussed in this section and you make the choice to exclude gain on the sale of your main home, the excluded gain is not taxed.

If you change your mind after you file the return for the year of sale, you may be able to make or revoke the choice later. You would have to file an amended return for the year of sale within certain time limits. See *How To Make and Revoke a Choice To Exclude Gain,* later.

Exclusion Amount

If you meet the age, ownership, and use tests, you can choose to exclude $125,000 of your gain on the sale of your home. If you are married on the date of the sale and file a separate return, you can choose to exclude only $62,500. Your gain is the amount realized on the sale minus the adjusted basis of the home. If there is gain remaining after the exclusion, you may be required to postpone tax on the rest of the gain if, as explained earlier, you buy and live in another home.

Age, Ownership, and Use

You can claim the exclusion if you meet ***all*** the following tests.

1) You were ***55 or older*** on the date of the sale.
2) During the ***5-year period*** ending on the date of the sale, you:
   a) ***Owned*** your main home for at least ***3 years,*** and
   b) ***Lived in*** your main home for at least ***3 years*** .
3) Neither you nor your spouse have ever excluded gain on the sale of a home after July 26, 1978. However, see *Effect of Marital Status,* later, for more details.

Age 55 at time of sale. You must be 55 by the date you sell the home to qualify for the exclusion. You do not meet the age 55 test if you sell the property during the year in which you will be 55 but before you actually become 55. The earliest date on which you can sell your home and still qualify for the exclusion is your 55th birthday.

Ownership and use tests. The required 3 years of ownership and use (during the 5-year period ending on the date of the sale) do not have to be continuous. You meet the tests if you can show that you owned and lived in the property as your main home for either 36 full months or 1,095 days (365 × 3) during the 5-year period. 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. See *Ownership and use tests met at different times,* later.

Example 1. From 1989 through 1993 Joseph Mooney lived with his son and daughter-in-law in a house owned by his son. On January 5, 1994, he bought this house from his son. He continued to live there until May 29, 1996, when he sold it. Although Joseph ***lived in*** the property as his main home for more than 3 years, he cannot exclude his gain on the sale. This is because he did not ***own*** the property for the required 3 years.

Example 2. Professor John Thomas bought and moved into a house on January 4, 1993. He lived in it as his main home continuously until February 1, 1995, when he went abroad for a 1-year sabbatical leave. During part of the period of leave, the property was unoccupied, and during the rest of the period, he rented it out. On March 4, 1996, he sold the house. Because his leave was not a short temporary absence, he cannot include the period of leave to meet the test of living in the house as his main home for 3 years or more. He cannot exclude his gain from income because he did not live in the house for the required period.

Jointly owned home. Both you and your spouse will meet the age, ownership, and use tests if you meet ***all*** of the following requirements.

1) You hold the home either as joint tenants, tenants by the entirety, or community property on the date of the sale.
2) You file a joint return for the tax year in which you sell the home.
3) ***Either*** you or your spouse has met the age, ownership, and use tests.

Joint owner not married. If the joint owners of a home are other than husband and wife, each owner who chooses to exclude gain from income must meet the age, ownership, and use tests. If one owner meets the tests, that does not automatically qualify the other owners to exclude their gain from income. Each owner excludes gain on an individual basis. A choice to exclude gain by one owner does not keep the other owners from making the choice to exclude gain when they sell a different home in the future.

Example. Frank Smith and his sister, Mary, each own a one-half interest in their jointly owned home. Frank meets the age, ownership, and use tests, but Mary does not. The adjusted basis of the home is $28,000, or $14,000 each. They sell the home for $180,000. Frank's interest in the amount realized is $90,000 ($\frac{1}{2} \times$ $180,000). He can choose to exclude from gross income his entire gain of $76,000 ($90,000 − $14,000). Mary must postpone tax on her $76,000 gain if she meets the requirements explained earlier under *Postponing Gain.* If not, she must include her gain in income for the year of sale.

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 home on which 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. Otherwise, you must have owned and lived in the ***same*** home for 3 of the 5 years before the sale to qualify for the exclusion.

Ownership and use tests met at different times. You can meet the ownership and use tests during different 3-year periods. However, you must meet both tests during the 5-year period ending on the date of the sale.

Example. In 1989, Grace Jones was 50 years old and lived in a rented apartment. The apartment building was later changed to a condominium and she bought her apartment on December 1, 1992. In 1994, Grace became ill and on April 14 of that year she moved to her daughter's home. On February 14, 1996, while still living in her daughter's home, she sold her apartment.

Grace can exclude gain on the sale of her apartment because she met the age, ownership, and use tests. Grace was over 55 at the time of the sale. Her 5-year period is from February 15, 1991, to February 14, 1996, the date she sold the apartment. She owned her apartment from December 1, 1992, to February 14, 1996 (over 3 years). Grace lived in the apartment from February 15, 1991, to April 14, 1994 (over 3 years).

Exception for individuals with a disability. There is an exception to the 3-out-of-5-year use test if you become physically or mentally unable to care for yourself at any time during the 5-year period.

You qualify for this exception to the use test if, during the 5-year period before the sale of your home:

1) You become physically or mentally unable to care for yourself, and
2) You owned and lived in your home as your main home for a total of at least 1 year.

Under this exception, you are considered to live in your home during any time that you reside in a facility (including a nursing home) that is 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 3-out-of-5-year ownership test to claim the exclusion.

Home of spouse who died. You will meet the ownership and use tests if your spouse is deceased on the date you sell your main home, and:

1) You have not remarried,
2) Your deceased spouse had met the ownership and use tests for that main home, and
3) Your deceased spouse had not previously chosen or joined in choosing to exclude gain on the sale of another main home after July 26, 1978.

You must still meet the age test (be at least age 55 on the date of sale) to qualify for the exclusion.

Example. Ellen and Doug Smith were married January 6, 1994. After their marriage, their main home was property Doug had owned and lived in as his main home since January 2, 1984. Doug died on January 2, 1996. He had never chosen or joined in choosing to exclude gain on the sale of any home.

Ellen inherited the property and continued to live in it as her main home until December 10, 1996, when she sold it. At the date of sale she was 56 years old, had not remarried, and had never chosen or joined in choosing to exclude gain on the sale of any home. Ellen can choose to exclude up to $125,000 of the gain from the sale of her home. This is because she meets the age test and Doug met the 3-out-of-5-year ownership and use tests for the property.

Sale by executor. Gain from the sale of a home by the executor of an estate may qualify for this exclusion. To qualify, the sale must be made under a contract entered into before death by a taxpayer who met the age, ownership, and use tests.

Rent-controlled apartment. If you receive a payment to give up your rights in a rent-controlled apartment, this gain does not qualify for the exclusion. You do not meet the ownership test when you rent an apartment.

Main Home

Main home has the same meaning for the exclusion of gain as it has for postponing tax on gain. See *Main Home* under *Postponing Gain,* earlier.

Part of property used as main home. You may use only part of the property as your main home, as explained earlier under *Old Home* and its discussion, *Property used partly as your home and partly for business or rental.* In this case, the rules discussed in this section apply only to the gain on the part of the property used as your main home.

Example. Dr. Martin Russell met the age, ownership, and use tests when he sold his main home. However, for the whole time he owned the home, he used half of it exclusively as an office for treating his patients. Only the half of the property used as his home qualifies for the exclusion.

For an example of how to divide the gain between the part of the property used as your home and the part used for business or other purposes, see *Property used partly as your home and partly for business or rental* under *Postponing Gain* and its discussion *Old Home,* earlier.

Note: If the business use of your old home did not exceed 2 years of the 5-year period ending on the date of the sale, you do not have to divide the gain. However, you must decrease your basis in the old home by the depreciation allowed or allowable for the business use of it. See *Adjusted Basis,* under *Gain or Loss on the Sale,* earlier.

Home traded. If you trade your old home for a different home, the trade is treated as a sale and a purchase. Gain on the old home may qualify for exclusion from gross income. See *Trading homes,* under *Gain or Loss on the Sale* and its discussion *Special Situations,* earlier.

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

Home on condemned property. If your home is condemned for public use, you can treat the transaction as a sale of the home. If you choose to exclude gain from the condemnation, you must follow the rules explained earlier in this section. If you have any gain remaining after the exclusion, you may have to postpone the tax on the rest of the gain as explained earlier under *Postponing Gain.* Or, you can postpone it under the rules for a condemnation, as explained under *Involuntary Conversions* in chapter 1 of Publication 544.

Home destroyed. If your home is destroyed by fire, storm, or other casualty, you can choose to exclude gain from insurance proceeds or other compensation. You must follow the rules explained earlier in this section. However, if you have any gain remaining after the exclusion, you cannot postpone the tax on the rest of the gain by using the rules explained earlier under *Postponing Gain.* The rest may qualify, however, under the postponement-of-gain rules explained in Publication 547, *Casualties, Disasters, and Thefts (Business and Nonbusiness).*

Effect of Marital Status

For purposes of the exclusion, your marital status is determined as of the date of sale of your home. If you are legally separated under a decree of divorce or of separate maintenance, you are not considered married.

Your marital status on the date of the sale determines the amount you can exclude, whether your spouse must join you in the choice to exclude gain, and whether each spouse can choose to exclude gain later.

Married persons must choose exclusion jointly. If you are married when you sell your main home, you cannot choose to exclude the gain unless your spouse joins you in making the choice. Your spouse must join you in the choice even if:

1) You or your spouse owned the home separately,

2) You and your spouse file separate returns, or

3) The spouse not owning an interest in the home had not lived in it for the required period before the sale.

Death of spouse after sale. If your spouse died after the sale, but before making the choice to exclude the gain, his or her personal representative (administrator or executor, for example) must join with you in making the choice. You, as the surviving spouse, are considered the personal representative of your deceased spouse if no one else has been appointed.

Home not jointly owned. If the home is not jointly owned, the spouse who owns the property must meet the age, ownership, and use tests. The other spouse must join in making the choice.

Separate return. If you are married on the date of sale, file a separate return, and meet the age, ownership, and use tests, you can exclude no more than $62,500 of gain on the sale of your main home. Your spouse must show agreement to your choice by writing in the bottom margin of Form 2119, or on an attached statement, ''I agree to the Part II election. '' Your spouse must also sign his or her name.

You or your spouse can exclude gain only once. If you or your spouse chooses to exclude gain from a sale after July 26, 1978, neither of you can choose to exclude gain again for a sale after that date. If you and your spouse each owned separate homes before your marriage and sold both homes after your marriage, you can exclude the gain on one of them, but not on both.

Divorce after exclusion. If after choosing to exclude gain, you and your spouse divorce, neither of you can exclude gain again. If you remarry, you and your new spouse cannot exclude gain on sales after your marriage. However, you can revoke a previous choice as discussed later under *How To Make and Revoke a Choice To Exclude Gain.*

Sale before marriage. If you meet the age, ownership, and use tests when you sell your separately owned home during the year, you can exclude gain up to $125,000. If you marry before the end of the year, you can take the exclusion whether you file a joint return or a separate return. This is because you were single on the date of the sale.

Joint exclusion not required. If one spouse sells a home before the marriage, the other spouse does not have to join in the choice to exclude gain. The spouse who did not join in that choice is eligible to exclude gain if he or she later sells a house, meets the age, ownership, and use tests, and at the time of sale is single or married to a different spouse who has never excluded gain or joined in a choice to do so.

You can exclude gain only once. If one spouse excludes gain from a house sold before marriage, that spouse cannot join in another choice to exclude gain. If this couple then sells a home during their marriage, neither can exclude any gain. This is because both spouses have to join in the choice, and one spouse has already excluded gain.

Example 1. Three years ago, Tom Oak sold his main home. He met the age, ownership, and use tests to exclude gain on the sale. Later in the year of sale, he married Susan Green. They filed a joint return for that year and Tom chose to exclude the gain on the sale of his house. Susan did not have to join in Tom's choice since they were not married on the date of the sale.

While married, Tom and Susan lived in Susan's separately owned house. Tom died two years later and Susan sold her house shortly after Tom's death. She met the age, ownership, and use tests to exclude gain on the sale. She can exclude up to $125,000 of the gain. This is because she was single on the date of sale and she has never made a choice to exclude gain before. She did not have to join in Tom's choice.

Example 2. Frank and Sheila Brown were married in 1988. Two years ago, they sold their jointly owned home. Frank and Sheila met the age, ownership, and use tests, so they chose to exclude their gain of $70,000 on their joint return for the year of sale. The Browns divorced in February of the following year.

In July of that year, Sheila married Mike Jones. Mike had sold his home a few months earlier when he was single. He met the age, ownership, and use tests at the time of sale. Mike can choose to exclude up to $125,000 gain on a separate or joint return. He can do this because Sheila (who already excluded gain) does not have to join in Mike's choice since he was single at the time he sold his home. In contrast, Sheila had to join Frank in choosing to exclude gain because they were married when they sold their home.

Example 3. Joe Johnson and Betty Smith were single and each owned a home. During the year, they sold their homes and each had a gain of $125,000, for a total gain of $250,000. Each met the age, ownership, and use tests at the time of sale.

Later that year, Joe and Betty married. Because Joe and Betty were single when they sold their homes, they each can choose to exclude $125,000 of gain ($250,000 total). This is true whether they file a joint return or separate returns.

Example 4. During the year, Bill and Sally White were divorced. At that time they had their jointly owned home up for sale. Sally married Ken Brown in November of that year. In December, a month later, Bill and Sally sold their home at a gain. Because Bill and Sally were not married to each other at the time they sold their home and they each met the tests to exclude gain, each can choose to exclude up to $125,000 gain based on the part of the home each owned. (See the *Example* under *Age, Ownership, and Use* and its discussion, *Joint owners not married,* earlier.)

Sally files a joint return with Ken and chooses to exclude up to $125,000 of her part of the gain. Ken must join Sally in her choice because he was her spouse at the time of sale in December. Bill files a single return and chooses to exclude up to $125,000 of his gain.

If Ken Brown later sells a home, he cannot choose to exclude gain because he had to join Sally in her choice. Ken is considered to have made a lifetime choice.

Example 5. David and Beth Pine sell their jointly owned home. They both meet the ownership and use tests at the time of sale, but David is 62 and Beth is 50. They file separate returns for the year they sell their house. Because Beth does not meet the age test, she cannot choose to exclude gain on her separate return. David can choose to exclude up to $62,500 of the gain on his separate return only if Beth joins him in making his choice.

If Beth did join David in making his choice and she later sells a home, she cannot choose to exclude gain because she joined David in his choice.

How To Make and Revoke a Choice To Exclude Gain

You can exclude gain on the sale of your main home ***only once*** for sales after July 26, 1978.

Time to exclude gain. You can make or revoke a choice to exclude gain from a particular sale at any time before the ***latest*** of the following dates.

1) Three years from the due date of the return for the year of the sale.
2) Three years from the date you filed the return.
3) Two years from the date you paid the tax.

How to make the choice. Make the choice by attaching a filled-in Form 2119, *Sale of Your Home,* to your income tax return for the year in which you sell your home. However, if you do not have Form 2119, you can make the choice by attaching a signed statement to your return. The statement must say you choose to exclude from income the gain from the sale. It must also include:

1) Your name, age, social security number, and marital status on the date of the sale. If the home was jointly owned, give this information for each owner.
2) The dates you bought and sold the home.
3) The amount realized and the adjusted basis of the property on the date of sale.
4) How long you were away from the home during the 5 years before the sale. Do not include vacation and other seasonal absences, even if you rented out the home during those absences.
5) Whether you or a joint owner ever chose to exclude gain on the sale of a home, and if you did, when and where you did so. If you revoked the choice, give the date you revoked it.

You can choose to exclude the gain even if you originally included it on your tax return for the year of the sale. You do so by filing an amended return (Form 1040X) for that year. You must send a filled-in Form 2119 or a statement that includes the information listed above with your amended return. See *How to revoke the choice,* later.

Example 1. Tom White, a single person, sold his main home on September 15, 1996. Tom was 58 years old when he sold the house and had owned and lived in the property as his main home for the past 10 years. He has never excluded gain on the sale of a home. This year he chooses to exclude the gain on the sale of his home. Tom's Form 2119 appears later in this publication.

Tom figures the gain on the sale of his home in the following way:

a) Selling price of home	$130,000
b) Minus: Selling expenses	10,000
c) Amount realized on sale	$120,000
d) Minus: Adjusted basis of old home (original cost plus improvements)	50,000
e) Gain on sale	$ 70,000

Because Tom is not planning to replace his home, he does not complete all of Part III of Form 2119. He completes lines 1 through 15 and attaches it to his tax return.

Example 2. Edward and Elizabeth Jones sold their home on June 15, 1996, for $250,000. Both are 60 years old and had owned and lived in the home as their main home for 20 years. The adjusted basis of the old home was $75,000 and they had selling expenses of $15,000. They bought a new home for $110,000 and moved into it on July 20, 1996. Neither spouse has excluded gain on the sale of a home before, and they choose to exclude $125,000 of the gain on the sale of their old home in 1996.

They must postpone the part of the gain not excluded. This is because they purchased a new home that cost as much as the adjusted sales price of the old home. The Joneses' Form 2119 appears later in this publication.

The Joneses figure the gain excluded and postponed as follows:

Gain On Sale		
a) Selling price of old home	$250,000	
b) Minus: Selling expenses	15,000	
c) Amount realized on sale		$235,000
d) Minus: Adjusted basis of old home		75,000
e) Gain on sale		$160,000
Gain after Exclusion		
f) Gain on sale [line (e)]	$160,000	
g) Minus: Exclusion [smaller of (e) or $125,000]	125,000	
h) Gain after exclusion		$ 35,000
Gain Taxed in 1996		
i) Amount realized [line (c)]	$235,000	
j) Minus: Exclusion [line (g)]	125,000	
k) Adjusted sales price		$110,000
l) Minus: Cost of new home		110,000
m) Gain taxed in 1996		$ -0-
Gain Postponed		
n) Gain after exclusion [line (h)]	$ 35,000	
o) Minus: Gain taxed in 1996 [line (m)]	-0-	
p) Gain postponed		$ 35,000
Adjusted Basis of New Home		
q) Cost of new home [line (l)]	$110,000	
r) Minus: Gain postponed [line (p)]	35,000	
s) Adjusted basis of new home		$ 75,000

How to revoke the choice. You can revoke your choice to exclude gain by filing an amended return for the year of sale using Form 1040X. Attach a new completed Form 2119 and, if needed, a Schedule D (Form 1040). Send the forms to the Internal Revenue Service Center for the place where you live.

If you were married when you sold your home, your spouse who joined you in making the choice must join you in revoking it. If your spouse is deceased, his or her personal representative must join you in revoking the choice.

Example. On October 2, Joe Brown sold his separately owned home. Two months later his wife Joyce died, leaving a will that appointed the First National Bank of Hometown as her executor. When preparing his tax return in March, Joe had the bank join him in making the choice. If later he wants to revoke the choice, the bank must join him in revoking it.

Note. If you revoke your choice to exclude gain when less than a year is left in the assessment period (time for determining your correct tax) for the return on which the choice was made, you must agree to extend the assessment period. Before the end of the period, you must file a statement that the assessment period will not end until 1 year after the date the statement is filed. The assessment period normally ends on the latest of the dates shown earlier under *Time to exclude gain.*

Recapture of Federal 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. The postponement and exclusion of gain provisions discussed earlier in this publication do not apply to this recapture tax.

The recapture tax is figured on **Form 8828.** If your mortgage loan is subject to the recapture rules, you must file Form 8828 even if you do not owe a recapture tax.

Loans subject to recapture rules. The recapture of the subsidy applies to loans provided after 1990 that:

1) Came from the proceeds of qualified mortgage bonds issued after August 15, 1986, or
2) Were based on mortgage credit certificates.

The recapture also applies to assumptions of these loans.

If your mortgage loan is subject to the recapture rules, you should have received a notice containing information that you need to figure the recapture tax. See *Notice of amounts,* later.

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 tax 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, you are considered to have ''sold'' 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 the recapture applies. The recapture of the federal mortgage subsidy applies only if you meet ***all*** of the following conditions.

1) You sell or otherwise dispose of your home at a gain,
2) You dispose of your home during the first 9 years after the date you closed your mortgage loan, and
3) Your income for the year of disposition exceeds 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. The recapture does ***not*** apply if any of the following situations apply to you:

- The mortgage was secured solely as a qualified home improvement loan of not more than $15,000,
- 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 repair it or replace it on its original site within 2 years after the destruction, or
- You refinance your mortgage loan (unless you later meet all of the conditions listed previously under *When the 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, for each year of the 9-year recapture period:

- The holding period percentage,
- The adjusted qualifying income for a family of less than three, and
- The adjusted qualifying income for a family of three or more.

You will need these amounts to figure your recapture tax.

How to figure and report the recapture. If your mortgage loan is subject to the recapture rule, you will need to fill out **Form 8828.** Attach it to your Form 1040. You must file Form 8828 even if you do not owe a recapture tax. See the instructions for Form 8828 for information on how to figure the recapture and complete the form.

How To Get More Information

You can get help from the IRS in several ways.

Free publications and forms. To order free publications and forms, call 1–800–TAX–FORM (1–800–829–3676). You can also write to the IRS Forms Distribution Center nearest you. Check your income tax package for the address. Your local library or post office also may have the items you need.

For a list of free tax publications, order Publication 910, *Guide to Free Tax Services.* It also contains an index of tax topics and related publications and describes other free tax information services available from IRS, including tax education and assistance programs.

If you have access to a personal computer and modem, you also can get many forms and publications electronically. See *Quick and Easy Access To Tax Help and Forms* in your income tax package for details. If space permitted, this information is at the end of this publication.

Tax questions. You can call the IRS with your tax questions. Check your income tax package or telephone book for the local number, or you can call 1–800–829–1040.

TTY/TDD equipment. If you have access to TTY/TDD equipment, you can call 1–800–829–4059 to ask tax questions or to order forms and publications. See your income tax package for the hours of operation.

Form **2119**

Department of the Treasury
Internal Revenue Service

Sale of Your Home

▶ Attach to Form 1040 for year of sale.

▶ See separate instructions. ▶ Please print or type.

OMB No. 1545-0072

1996

Attachment Sequence No. **20**

Your first name and initial. If a joint return, also give spouse's name and initial: Frank G. and Evelyn M. — Last name: Harris

Your social security number: 222:00:2222

Fill in Your Address Only If You Are Filing This Form by Itself and Not With Your Tax Return

Present address (no., street, and apt. no., rural route, or P.O. box no. if mail is not delivered to street address)

Spouse's social security number: 444:00:4444

City, town or post office, state, and ZIP code

Part I Gain on Sale

1	Date your former main home was sold (month, day, year) ▶	1	5 / 6 / 96
2	Have you bought or built a new main home?		☑ Yes ☐ No
3	If any part of either main home was ever rented out or used for business, check here ▶ ☐ and see page 3.		
4	Selling price of home. Do not include personal property items you sold with your home	4	87,000
5	Expense of sale (see page 3)	5	5,200
6	Subtract line 5 from line 4	6	81,800
7	Adjusted basis of home sold (see page 3)	7	63,000
8	**Gain on sale.** Subtract line 7 from line 6	8	18,800

Is line 8 more than zero?

- **Yes** ▶ If line 2 is "Yes," you **must** go to Part II or Part III, whichever applies. If line 2 is "No," go to line 9.
- **No** ▶ **Stop** and attach this form to your return.

9 If you haven't replaced your home, do you plan to do so within the **replacement period** (see page 1)? ☐ Yes ☐ No

- If line 9 is "Yes," stop here, attach this form to your return, and see **Additional Filing Requirements** on page 1.
- If line 9 is "No," you **must** go to Part II or Part III, whichever applies.

Part II One-Time Exclusion of Gain for People Age 55 or Older—By completing this part, you are electing to take the one-time exclusion (see page 2). If you are not electing to take the exclusion, go to Part III now.

10	Who was age 55 or older on the date of sale?		☐ You ☐ Your spouse ☐ Both of you
11	Did the person who was 55 or older own and use the property as his or her main home for a total of at least 3 years of the 5-year period before the sale? See page 2 for exceptions. If "No," go to Part III now		☐ Yes ☐ No
12	At the time of sale, who owned the home?		☐ You ☐ Your spouse ☐ Both of you
13	Social security number of spouse at the time of sale if you had a different spouse from the one above. If you were not married at the time of sale, enter "None" ▶	13	: :
14	**Exclusion.** Enter the **smaller** of line 8 or $125,000 ($62,500 if married filing separate return). Then, go to line 15	14	

Part III Adjusted Sales Price, Taxable Gain, and Adjusted Basis of New Home

15	If line 14 is blank, enter the amount from line 8. Otherwise, subtract line 14 from line 8	15	18,800
	• If line 15 is zero, stop and attach this form to your return. • If line 15 is more than zero and line 2 is "Yes," go to line 16 now. • If you are reporting this sale on the installment method, stop and see page 4. • All others, stop and **enter the amount from line 15 on Schedule D, col. (g), line 4 or line 12.**		
16	Fixing-up expenses (see page 4 for time limits)	16	500
17	If line 14 is blank, enter amount from line 16. Otherwise, add lines 14 and 16	17	500
18	**Adjusted sales price.** Subtract line 17 from line 6	18	81,300
19a	Date you moved into new home ▶ 5 / 4 / 96 **b** Cost of new home (see page 4)	19b	77,200
20	Subtract line 19b from line 18. If zero or less, enter -0-	20	4,100
21	**Taxable gain.** Enter the **smaller** of line 15 or line 20	21	4,100
	• If line 21 is zero, go to line 22 and attach this form to your return. • If you are reporting this sale on the installment method, see the line 15 instructions and go to line 22. • All others, **enter the amount from line 21 on Schedule D, col. (g), line 4 or line 12,** and go to line 22.		
22	Postponed gain. Subtract line 21 from line 15	22	14,700
23	**Adjusted basis of new home.** Subtract line 22 from line 19b	23	62,500

Sign Here Only If You Are Filing This Form by Itself and Not With Your Tax Return

Under penalties of perjury, I declare that I have examined this form, including attachments, and to the best of my knowledge and belief, it is true, correct, and complete.

Your signature ▶ ______ Date ______ Spouse's signature ▶ ______ Date ______

If a joint return, both must sign.

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11710J Form **2119** (1996)

Printed on recycled paper

Adjusted Basis of Home Sold Worksheet—Line 7 (keep for your records)

Caution: *If any of the situations listed in the instructions for line 7 apply to you, see* ***Table 2*** *in Pub. 523 before you use this worksheet.*

1.	Enter the purchase price of your old home. But if you filed Form 2119 when you originally acquired your old home to postpone gain on the sale of a previous home, enter the adjusted basis of the new home from that Form 2119 . .			1. 57,600
2.	Seller-paid points, for home bought after 1990 (see page 4). **Do not** include any seller-paid points you previously subtracted to arrive at the amount entered on line 1 above.			2.
3.	Subtract line 2 from line 1			3. 57,600
4.	Settlement fees or closing costs (see page 4). **Do not** include amounts previously deducted as moving expenses. If line 1 includes the adjusted basis of the new home from Form 2119, skip lines 4a–5 and go to line 6.			
a.	Abstract and recording fees . . .	4a.		
b.	Legal fees (including title search and preparing documents)	4b.	500	
c.	Surveys	4c.		
d.	Title insurance	4d.	400	
e.	Transfer or stamp taxes	4e.		
f.	Amounts the seller owed that you agreed to pay, such as back taxes or interest, recording or mortgage fees, and sales commissions	4f.		
g.	Other	4g.		
5.	Add lines 4a through 4g			5. 900
6.	Cost of capital improvements from the worksheet on page 4. **Do not** include any capital improvements included on line 1 above			6. 4,500
7.	Special tax assessments paid on your old home 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. 63,000
10.	Depreciation, related to the business use or rental of your old home, claimed (or allowable) on prior year tax returns	10.		
11.	Residential energy credit (generally allowed from 1977 through 1987) claimed for any capital improvements included on line 6 and, if applicable, line 1 above	11.		
12.	Payments received for any easement or right-of-way granted	12.		
13.	Other decreases to basis	13.		
14.	Add lines 10 through 13			14.
15.	**Adjusted basis of home sold.** Subtract line 14 from line 9. Enter the result here and on Form 2119, line 7.			15. 63,000

Form **2119**

Department of the Treasury
Internal Revenue Service

Sale of Your Home

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▶ See separate instructions. ▶ Please print or type.

OMB No. 1545-0072

1996

Attachment Sequence No. **20**

Your first name and initial. If a joint return, also give spouse's name and initial.	Last name	Your social security number
Tom S.	White	333 : 00 : 3333

Fill in Your Address Only If You Are Filing This Form by Itself and Not With Your Tax Return	Present address (no., street, and apt. no., rural route, or P.O. box no. if mail is not delivered to street address)	Spouse's social security number
	City, town or post office, state, and ZIP code	

Part I Gain on Sale

1	Date your former main home was sold (month, day, year) ▶	1	9 / 15 / 96
2	Have you bought or built a new main home?		☐ Yes ☑ No
3	If any part of either main home was ever rented out or used for business, check here ▶ ☐ and see page 3.		
4	Selling price of home. Do not include personal property items you sold with your home	4	130,000
5	Expense of sale (see page 3)	5	10,000
6	Subtract line 5 from line 4	6	120,000
7	Adjusted basis of home sold (see page 3)	7	50,000
8	**Gain on sale.** Subtract line 7 from line 6	8	70,000

Is line 8 more than zero?
- **Yes** ▶ If line 2 is "Yes," you **must** go to Part II or Part III, whichever applies. If line 2 is "No," go to line 9.
- **No** ▶ **Stop** and attach this form to your return.

9 If you haven't replaced your home, do you plan to do so within the **replacement period** (see page 1)? ☐ Yes ☑ No
- If line 9 is "Yes," stop here, attach this form to your return, and see **Additional Filing Requirements** on page 1.
- If line 9 is "No," you **must** go to Part II or Part III, whichever applies.

Part II One-Time Exclusion of Gain for People Age 55 or Older—By completing this part, you are electing to take the one-time exclusion (see page 2). If you are not electing to take the exclusion, go to Part III now.

10	Who was age 55 or older on the date of sale?		☑ You ☐ Your spouse ☐ Both of you
11	Did the person who was 55 or older own and use the property as his or her main home for a total of at least 3 years of the 5-year period before the sale? See page 2 for exceptions. If "No," go to Part III now		☑ Yes ☐ No
12	At the time of sale, who owned the home?		☑ You ☐ Your spouse ☐ Both of you
13	Social security number of spouse at the time of sale if you had a different spouse from the one above. If you were not married at the time of sale, enter "None" ▶	13	NONE
14	**Exclusion.** Enter the **smaller** of line 8 or $125,000 ($62,500 if married filing separate return). Then, go to line 15	14	70,000

Part III Adjusted Sales Price, Taxable Gain, and Adjusted Basis of New Home

15	If line 14 is blank, enter the amount from line 8. Otherwise, subtract line 14 from line 8	15	-0-
	• If line 15 is zero, stop and attach this form to your return. • If line 15 is more than zero and line 2 is "Yes," go to line 16 now. • If you are reporting this sale on the installment method, stop and see page 4. • All others, stop and **enter the amount from line 15 on Schedule D, col. (g), line 4 or line 12.**		
16	Fixing-up expenses (see page 4 for time limits)	16	
17	If line 14 is blank, enter amount from line 16. Otherwise, add lines 14 and 16	17	
18	**Adjusted sales price.** Subtract line 17 from line 6	18	
19a	Date you moved into new home ▶ / / **b** Cost of new home (see page 4)	19b	
20	Subtract line 19b from line 18. If zero or less, enter -0-	20	
21	**Taxable gain.** Enter the **smaller** of line 15 or line 20	21	
	• If line 21 is zero, go to line 22 and attach this form to your return. • If you are reporting this sale on the installment method, see the line 15 instructions and go to line 22. • All others, **enter the amount from line 21 on Schedule D, col. (g), line 4 or line 12,** and go to line 22.		
22	Postponed gain. Subtract line 21 from line 15	22	
23	**Adjusted basis of new home.** Subtract line 22 from line 19b	23	

Sign Here Only If You Are Filing This Form by Itself and Not With Your Tax Return

Under penalties of perjury, I declare that I have examined this form, including attachments, and to the best of my knowledge and belief, it is true, correct, and complete.

Your signature	Date	Spouse's signature	Date
▶		▶	

If a joint return, both must sign.

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11710J Form **2119** (1996)

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Form **2119**

Department of the Treasury
Internal Revenue Service

Sale of Your Home

▶ Attach to Form 1040 for year of sale.

▶ See separate instructions. ▶ Please print or type.

OMB No. 1545-0072

1996

Attachment Sequence No. **20**

Your first name and initial. If a joint return, also give spouse's name and initial.	Last name	Your social security number
Edward and Elizabeth M.	Jones	555 00 5555
Fill in Your Address Only If You Are Filing This Form by Itself and Not With Your Tax Return — Present address (no., street, and apt. no., rural route, or P.O. box no. if mail is not delivered to street address)		Spouse's social security number: 777 00 7777
City, town or post office, state, and ZIP code		

Part I Gain on Sale

1	Date your former main home was sold (month, day, year) ▶	1	6 / 15 / 96
2	Have you bought or built a new main home?		☑ Yes ☐ No
3	If any part of either main home was ever rented out or used for business, check here ▶ ☐ and see page 3.		
4	Selling price of home. Do not include personal property items you sold with your home	4	250,000
5	Expense of sale (see page 3)	5	15,000
6	Subtract line 5 from line 4	6	235,000
7	Adjusted basis of home sold (see page 3)	7	75,000
8	**Gain on sale.** Subtract line 7 from line 6	8	160,000

Is line 8 more than zero?

- Yes ⟶ If line 2 is "Yes," you **must** go to Part II or Part III, whichever applies. If line 2 is "No," go to line 9.
- No ⟶ **Stop** and attach this form to your return.

9 If you haven't replaced your home, do you plan to do so within the **replacement period** (see page 1)? ☐ Yes ☐ No

- If line 9 is "Yes," stop here, attach this form to your return, and see **Additional Filing Requirements** on page 1.
- If line 9 is "No," you **must** go to Part II or Part III, whichever applies.

Part II One-Time Exclusion of Gain for People Age 55 or Older—By completing this part, you are electing to take the one-time exclusion (see page 2). If you are not electing to take the exclusion, go to Part III now.

10	Who was age 55 or older on the date of sale?		☐ You ☐ Your spouse ☑ Both of you
11	Did the person who was 55 or older own and use the property as his or her main home for a total of at least 3 years of the 5-year period before the sale? See page 2 for exceptions. If "No," go to Part III now		☑ Yes ☐ No
12	At the time of sale, who owned the home?		☐ You ☐ Your spouse ☑ Both of you
13	Social security number of spouse at the time of sale if you had a different spouse from the one above. If you were not married at the time of sale, enter "None" ▶	13	
14	**Exclusion.** Enter the **smaller** of line 8 or $125,000 ($62,500 if married filing separate return). Then, go to line 15	14	125,000

Part III Adjusted Sales Price, Taxable Gain, and Adjusted Basis of New Home

15	If line 14 is blank, enter the amount from line 8. Otherwise, subtract line 14 from line 8	15	35,000
	• If line 15 is zero, stop and attach this form to your return. • If line 15 is more than zero and line 2 is "Yes," go to line 16 now. • If you are reporting this sale on the installment method, stop and see page 4. • All others, stop and **enter the amount from line 15 on Schedule D, col. (g), line 4 or line 12.**		
16	Fixing-up expenses (see page 4 for time limits)	16	-0-
17	If line 14 is blank, enter amount from line 16. Otherwise, add lines 14 and 16	17	125,000
18	**Adjusted sales price.** Subtract line 17 from line 6	18	110,000
19a	Date you moved into new home ▶ 7 / 20 / 96 **b** Cost of new home (see page 4)	19b	110,000
20	Subtract line 19b from line 18. If zero or less, enter -0-	20	-0-
21	**Taxable gain.** Enter the **smaller** of line 15 or line 20	21	-0-
	• If line 21 is zero, go to line 22 and attach this form to your return. • If you are reporting this sale on the installment method, see the line 15 instructions and go to line 22. • All others, **enter the amount from line 21 on Schedule D, col. (g), line 4 or line 12,** and go to line 22.		
22	Postponed gain. Subtract line 21 from line 15	22	35,000
23	**Adjusted basis of new home.** Subtract line 22 from line 19b	23	75,000

Sign Here Only If You Are Filing This Form by Itself and Not With Your Tax Return

Under penalties of perjury, I declare that I have examined this form, including attachments, and to the best of my knowledge and belief, it is true, correct, and complete.

Your signature ______ Date ______ Spouse's signature ______ Date ______

If a joint return, both must sign.

Glossary

The definitions in this glossary are the meanings of the terms as used in this publication. The same term used in another publication may have a slightly different meaning.

Note: Certain definitions show words in ***bold italicized*** print. This means that those words are also defined in this glossary.

Adjusted basis: This is your ***basis*** in the property increased or decreased by certain amounts. See *Adjusted Basis*, earlier in this publication, for a list of items that increase or decrease your basis in the property.

Adjusted sales price: This is the ***amount realized*** minus any ***one-time exclusion*** you claim on your Form 2119 and minus any ***fixing-up expenses*** you might have.

Amount realized: This is the selling price of your old home minus your ***selling expenses.***

Basis: Your basis in the property is determined by how you got it. If you bought or built the property, your basis is what it cost you. If you got the property in some other way, your basis will be determined differently. See *Cost As Basis* and *Basis Other Than Cost* earlier in this publication for more information.

Date of sale: If you received a Form 1099–S, *Proceeds From Real Estate Transactions,* the date 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.

Fair market value: Fair market value is the price at which property would change hands between a willing buyer and a willing seller, neither having to buy or sell, and both having reasonable knowledge of the relevant facts. Sales of similar property, on or about the same date, may be helpful in figuring the fair market value of the property.

Fixing-up expenses: These are costs you pay for decorating or repairing your home to make it easier to sell. You may be able to deduct fixing-up expenses from the ***amount realized*** on the sale of your old home. See *Fixing-up expenses,* earlier in this publication, to determine how you treat these expenses when you sell your old home.

Gain: Your gain on the sale of your home is the ***amount realized*** minus the ***adjusted basis*** of the home you sold.

Improvements: These add to the value of your home, prolong the life of the property, or allow the property to be used for new purposes. The cost of improvements increases your ***basis*** in the property. See *Table 3,* earlier in this publication, for examples of improvements.

Main home: This is the home you live in most of the time. It can be a house, houseboat, cooperative apartment, condominium, etc.

One-time exclusion: This is a once-in-a-lifetime election available to persons age 55 or older to exclude up to $125,000 of the ***gain*** from the sale of a ***main home.*** Generally the person must have owned and lived in the home for at least 3 years during a 5-year period ending on the ***date of sale.*** The excluded gain is never taxed. For more details, see *Exclusion of Gain,* earlier in this publication.

Postponing gain: If you sell your ***main home***, and buy and live in a new main home (also referred to as ''new home'' or ''replacement home '') within a certain ***replacement period,*** any gain on the sale will not be taxed in the year of sale if the cost of the new home is the same as or more than the ***adjusted sales price*** of the old home. Instead, the gain not taxed in the year of sale reduces your ***basis*** in the new home that you purchase. If you sell the new home in a later year and again replace it, you continue to postpone tax on your gain. For a detailed discussion, see *Postponing Gain* earlier in this publication.

Repairs: These maintain your property in good condition. They differ from ***improvements*** in that they do not add much to the value or life of the property and their cost does not increase your ***basis*** in the property.

Replacement period: This is the period you have to replace your old ***main home*** with a new one for purposes of ***postponing gain.*** Generally you have 2 years before or 2 years after the ***date of sale*** of your old home to replace it. See *Replacement Period* earlier in this publication for exceptions to the above rule which may give you a longer replacement period.

Seller-financed mortgage: This is a mortgage that you give to the buyer of your home. The buyer makes mortgage payments to you.

Selling expenses: Selling expenses include items such as sales commissions, and advertising and legal fees you pay to sell your home. Selling expenses also usually include loan charges you pay in selling your home, such as loan placement fees or ''points.''

Settlement fees (or closing costs): These are amounts paid in purchasing your property in addition to the contract price. Some of these amounts are added to the ***basis*** of the property and some are deductible as itemized deductions. Certain amounts are neither deductible nor added to the basis of the property. See *Settlement fees or closing costs* under *Basis*, earlier in this publication, for more details.

How To Get Forms, Publications, and Other Information

You can get information from the IRS in several ways. Choose the method from the table below that is best for you.

Method	Type of Information	How To Get the Information
• By phone	• Forms and publications	▶ Call 1-800-TAX-FORM (1-800-829-3676) during regular business hours. If you have access to TTY/TDD equipment, you can call 1-800-829-4059.
	• Tele-Tax topics	▶ See your income tax package for the phone number and list of Tele-Tax topics.
	• Personal assistance	▶ Call 1-800-829-1040 during regular business hours. If you have access to TTY/TDD equipment, you can call 1-800-829-4059.
• By mail	• Forms and publications	▶ Write to the IRS Forms Distribution Center listed for your state. Print or type your name and address clearly and indicate the number of the form or publication, i.e., Form 1040 or Publication 463. *Address* — *States (abbreviated)* Western Area Distribution Center, Rancho Cordova, CA 95743-0001 — AK, AZ, CA, CO, HI, ID, MT, NV, NM, OR, UT, WA, WY, Guam, Northern Marianas, American Samoa Central Area Distribution Center, P.O. Box 8903, Bloomington, IL 61702-8903 — AL, AR, IL, IN, IA, KS, KY, LA, MI, MN, MS, MO, NE, ND, OH, OK, SD, TN, TX, WI Eastern Area Distribution Center, P.O. Box 85074, Richmond, VA 23261-5074 — CT, DE, DC, FL, GA, ME, MD, MA, NH, NJ, NY, NC, PA, RI, SC, VT, VA, WV If you live in any other location, see your income tax package for the address.
• By visiting your local post office or library	• Forms and publications	▶ The post office is a good source of the most common forms and schedules. The library stocks a wider variety of forms and some publications that you may photocopy. It may also have a CD-ROM from which you can view or print items. The CD contains forms from 1991 to the present and publications from 1994 to the present.
• With a computer and modem	• Forms and publications • Educational materials • IRS press releases and fact sheets • Tele-Tax topics • Answers to frequently asked questions	▶ Use the Internet— **World Wide Web — http://www.irs.ustreas.gov** **Telnet — iris.irs.ustreas.gov** **FTP — ftp.irs.ustreas.gov** *TIP:* If you subscribe to an on-line service, ask your provider how to best access IRS information. ▶ Access the Internal Revenue Information Services bulletin board at 703-321-8020 (not toll-free). *TIP:* If you're a new user, you may want to read the on-line help first.
• By fax	• Forms and other information	▶ Dial 703-487-4160 (not toll-free) from your fax machine to reach IRS Tax Fax. You can request up to 3 items during each call. This fax program provides 100 of the most popular forms and instructions (not publications), as well as other information, 24 hours a day, seven days a week.
	• Tele-Tax topics	▶ See your income tax package for a list of Tele-Tax topics.

Index