Sale of Home – Capital Gain or Loss

Taxable gain on the sale of a home is taxable if either:

- Proceeds from the sale of a main home that meets the ownership and use tests and the gain is greater than the taxpayer's allowed exclusion must be reported.
- Proceeds from the sale of a home that is *not* the taxpayer's main home (reported as income).

The sale reported on Form 8949 and Schedule D. Show an adjustment as the aggregate of adjustment code H (used to claim the allowable exclusion), code E (for selling expenses), and code H (for the excluded gain).

Selling a home used for business purposes or as rental property is out of scope for AARP Foundation Tax-Aide counselors.

Learning Objectives

- Determine whether a home is the taxpayer's main home or personal real estate.
- Determine if a taxpayer meets the ownership and use tests.
- Determine when the 5-year ownership/use test period is suspended.

Resources:
Volunteer Training Guide – Pub 4491
Volunteer Resource Guide – Pub 4012
Selling Your Home section
in Publication 17

Qualified taxpayers may be able to exclude a portion of the gain on the sale of their main home if they meet the ownership and use tests. A loss on the sale of a principal residence is not deductible but must be reported if the taxpayer received Form 1099-S.

The worksheets in Publication 523 help you figure the taxable gain from the sale of a home using the selling price, amount realized, basis and adjusted basis, along with the maximum allowed exclusion.

If taxpayer sold a main home at a loss and received a Form 1099-S, they must report the loss. Zero out the loss with a net adjustment using L (for a nondeductible personal loss) along with both code E (for selling expenses).

Feedback: Please email:
selfstudy@aarpfdntaxaide.org
Appreciate suggestions and comments.

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Getting Started

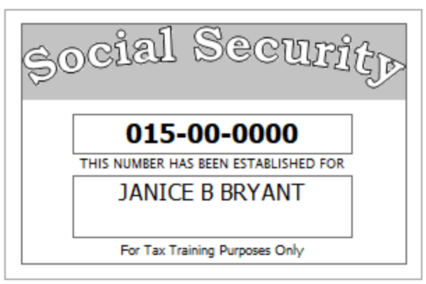
4491 Study the associated **VITA/TCE Volunteer Training Manual** Chapter 11, page 11.

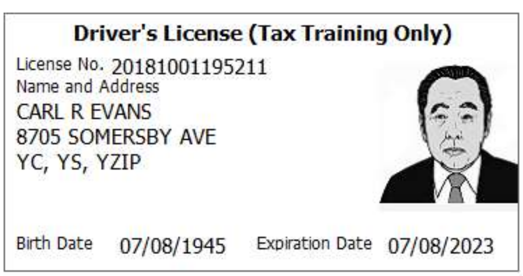
4012 Open Volunteer Resource Guide, Tab D, and find Capital Gains or Losses Sale of Main Home**.**

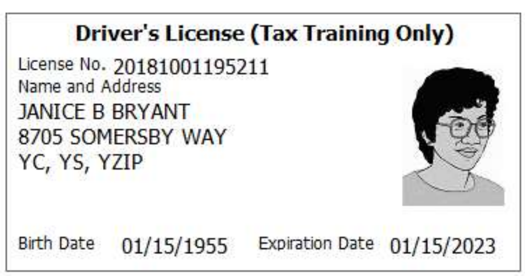
Hint from NTTC Modifications to the IRS Training Guide
Sale of home by surviving spouse
TIP: Upon the death of the first spouse, some or all of the property may have a new basis based on the fair market value on the date of death. This may substantially reduce the amount of gain or loss.
How much of the gain from a home sale can a taxpayer exclude?
Some surviving spouses may also exclude up to $500,000.

Practice Lab

Carl Evans and Janice Bryant
Sell their long time home.







- Received a Form 1099-S showing gross proceeds of $695,750 for the sale of their home.
- Closing statement showed seller closing costs of $26,000
- They purchased the home on March 3, 1980 for $44,000
- Lived in the home until it was sold on May 1, 2018.

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- They have documents showing the following expenses:

		Amount increases basis
new fence;	$3,400	$3,400
added a deck;	$2,900	$2,900
exterior painting (not part of a home improvement);	$900	
remodeled kitchen;	$20,600	$20,600
refinished wood floors;	$1,100	
annual maintenance on the heating and air conditioning system.	$370 / year	

Look at the TaxSlayer Summary/Print>View/Print Return>Print your 2018 Tax Return
Review the Forms 1040 (AGI and Tax), Schedule D, and Form 8949

Learning Review Capital Gains and Losses

Emily, who is single, bought a home in 2000. She lived in the home until January 1, 2009, when she accepted a temporary job assignment in Venezuela and left the house vacant. Emily returned to her home on December 31, 2010 and lived there until she sold the house on January 10, 2014. Does Emily meet the ownership and use test? ¨	Yes or No
John purchased a home in 2003. He sold his main home in 2018. John had not lived in the home for six years. Which of the following conditions would allow John to exclude his gain? A. John went on sabbatical for four years and backpacked through Europe. B. John lived with a co-worker for four years and let his brother occupy his home. C. John was deployed to Europe on official extended military duty for five years. D. John married and his bride had her own home. The couple chose to live in the wife's home and rent out John's home, until it was sold.	

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Answers to Learning Review

1: Yes. Emily meets the ownership and use test because she owned and lived in the home for at least two years of the five-year period ending on the date of the sale.
2: C. The only circumstance that will allow John to exclude the gain is if he can extend the five-year period due to official extended military duty.

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Summary

- Sale of Main Home (Principal Residence)
    - Home where taxpayer lives most of the time
    - Can be houseboat, mobile home, condo or co-op
    - Must have cooking, sleeping and bathroom facilities
    - Main home is one taxpayer lives in most of the time
        - - Taxpayer cannot simply "choose"
- Report on tax return (Form 8949 and Schedule D) only if either:
    - Taxpayer received Form 1099-S reported to IRS

    Or

    - Any part of gain is taxable
- Taxable gain if:
    - Not Main home
    - Taxpayer does not satisfy IRS ownership and use tests
    - Gain is greater than $250,000 ($500,000 MFJ)
- Taxpayer receives a Form 1099-S Sale of Other Personal Residence
    - Not "main home"
    - No exclusion
    - Gain is taxable
    - Loss not deductible
- Residences that have been rented or used in a business are out of scope
- Gain excluded
  - Up to $250,000 ($500,000 MFJ)
    - During 5 years ending with date of sale - must meet both tests:
        - Ownership Test
            - Owned the home for at least two years
        - Use Test
            - Lived in home as main home for at least two years
            - The two-year periods do not have to be continuous nor overlapping
- Married taxpayers' $500,000 exclusion requirements:
    - Must file joint return
    - Either spouse meets ownership test
    - Both individuals meet use test
    - Neither one excluded home sale gain in two years before sale of current home
- Otherwise, use test to see if one spouse qualifies for $250,000 exclusion
- Sale of Main Home
    - Cannot claim another exclusion within two years of prior exclusion
- Determining Cost Basis
    - Purchase Price of Property

- Plus some fees that you paid
  - Legal fees, recording fees, transfer fees, title insurance etc.
  - Financing fees and costs for financing are NOT to be included
- Refer to Pub 523 Selling your Home

➢ Basis of Property includes:
- Original purchase price
- Plus Cost of Additions
- Plus Cost of Improvements that add to Home Value
  - Includes repairs done as part of larger improvement
  - Determining Cost Basis

➢ Items that cannot be included in cost basis
- Repairs
  - Painting
  - Fixing roof leaks
- Improvement later replaced
  - If you replaced water heater twice, only count last replacement

➢ Cancellation Of Debt (COD) is out of scope for TY2018

Example of Form 1099-S:

☐ CORRECTED (if checked)

FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number	1 Date of closing 2 Gross proceeds $	OMB No. 1545-0997 2018 Form 1099-S	Proceeds From Real Estate Transactions
FILER'S TIN / TRANSFEROR'S TIN	3 Address (including city, state, and ZIP code) or legal description		Copy B For Transferor This is important tax information and is being furnished to the IRS. 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.
TRANSFEROR'S name Street address (including apt. no.) City or town, state or province, country, and ZIP or foreign postal code	4 Transferor received or will receive property or services as part of the consideration (if checked) ☐ 5 If checked, transferor is a foreign person (nonresident alien, foreign partnership, foreign estate, or foreign trust) ☐		
Account number (see instructions)	6 Buyer's part of real estate tax $		

Form 1099-S (keep for your records) www.irs.gov/Form1099S Department of the Treasury - Internal Revenue Service

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