Part 2. Exclusion and Taxable Gain	Home (3/4)	Rental (1/4)
6. Depreciation allowed or allowable after May 6, 1997	$-0-	$2,000
7. Subtract line 6 from line 5	13,500	500
8. Aggregate number of days of nonqualified use after 2008	-0-	-0-
9. Number of days taxpayer owned the property	N/A	N/A
10. Divide the amount on line 8 by the amount on line 9. Enter the result as a decimal (rounded to at least 3 places). But do not enter an amount greater than 1.00	-0-	-0-
11. Gain allocated to nonqualified use (line 7 multiplied by line 10)	-0-	-0-
12. Gain eligible for exclusion. Subtract line 11 from line 7	13,500	500
13. Maximum exclusion	$187,500	$62,500
14. Exclusion (smaller of line 12 or line 13)	13,500	500
15. Taxable gain (line 5 minus line 14)	-0-	*
16. Smaller of line 6 or line 15	-0-	*

* Lines 15 and 16 do not need to be filled out for the rental part.

Report the gain from the rental part, $2,500, in Part III of Form 4797. Enter your $500 exclusion as a loss (in parentheses) on Form 4797, line 2, column (g), and enter "Section 121 exclusion" on that line. Your taxable gain from the rental part is $2,000 ($2,500 – $500).

Use test met for business part (with no business use in year of sale). If you have used a separate part of your property for business or to produce rental income (though not in the year of sale) but meet the use test for both the business or rental part and the part you use as a home, you do not need to treat the transaction as the sale of two properties. Also, you do not need to file Form 4797. In most cases, you can exclude gain on the entire property.

Example 6. Assume the same facts as in Example 5, except that in March 2013, you combined the two separate dwelling units by eliminating the basement kitchen and building a new interior stairway to the upper floors. You then used the entire townhouse as your main home for the rest of 2013. Because the entire townhouse was used as your main home for at least 2 years during the 5-year period ending on the date of the sale, you report the gain, $16,000, and the allowable exclusion ($14,000), in Part II Form 8949, and in Part II of Schedule D (Form 1040). Since your $2,000 taxable gain is from depreciation, it is unrecaptured section 1250 gain; enter it on line 12 of the Unrecaptured Section 1250 Gain Worksheet in the Schedule D (Form 1040) instructions. You have no gains or losses from the sale of property other than the gain from the sale of your home, so you also enter $2,000 on lines 13 and 18 of the worksheet and on line 19 of Schedule D. Then figure your tax using the Schedule D Tax Worksheet.

Reporting the Sale

Do not report the 2013 sale of your main home on your tax return unless:

- You have a gain and do not qualify to exclude all of it,
- You have a gain and choose not to exclude it, or
- You received Form 1099-S.

If you have a gain that you cannot or choose not to exclude, if you received a Form 1099-S, or if you have a deductible loss, report the sale on your tax return. Report the sale on Part I or Part II of Form 8949 as a short-term or long-term transaction, depending on how long you owned the home. Report the proceeds from the sale (Worksheet 2, line 1) in column (d) and the cost or other basis (Worksheet 2, line 4) in column (e). If there are any selling expenses, enter "E" in column (f) and the necessary adjustment in column (g). See the Instructions for Form 8949.

If you can exclude some or all of your gain on the sale of your main home, enter "H" in column (f). Enter the amount of the excluded (nontaxable) gain as a negative number (in parenthesis) in column (g). See the Instructions for Form 8949.

If you have a loss on the sale of your main home for which you received a Form 1099-S, you must report the sale on Form 8949 even though the loss is not deductible. Enter "L" in column (f) and enter the amount of the nondeductible loss as a positive number in column (g). See the Instructions for Form 8949.

If you used the home for business or to produce rental income, you may have to use Form 4797 to report the sale of the business or rental part (or the sale of the entire property if used entirely for business or rental). See Business Use or Rental of Home, earlier, and the Instructions for Form 4797.

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 probably have an installment sale. You may be able to report the part of the gain you cannot exclude on the installment basis.

Use Form 6252, Installment Sale Income, to report the sale. Enter your exclusion (line 14 of Worksheet 2) on line 15 of Form 6252.

Seller-financed mortgage. If you sell your home and hold a note, mortgage, or other financial agreement, the payments you receive in most cases consist of both interest and principal. You must separately report as interest income the interest you receive as part of each payment. 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 Schedule B (Form 1040A or Form 1040), Interest and Ordinary Dividends. 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 either 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, file Form W-7, Application for IRS Individual Taxpayer Identification Number, with the IRS.

If you have to include the buyer's SSN on your return and the buyer is an alien who 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 are an alien who does 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.

Comprehensive Examples

Example 1. Peter and Betty Clark, who are married and file a joint return, bought a home in 1969. (They did not postpone the gain on the sale of their previous home.) They lived in it as their main home until they sold it in February 2013. The Clarks can exclude gain on the sale of their home because they owned and lived in it for at least 2 years of the 5-year period ending on the date of sale.

Their records show the following.

Original cost	$ 40,000
Legal fees for title search	250
Improvements (roof)	2,000
Selling price	395,000
Selling expenses, including commission	25,000

The Clarks use Worksheet 1 to figure the adjusted basis of the home they sold ($42,250). They use Worksheet 2 to figure the gain on the sale ($327,750) and the amount of their exclusion ($327,750). Their completed Worksheets 1 and 2 follow.

Because the Clarks are married and file a joint return for the year, they qualify to exclude the full amount of their gain and the settlement agent does not file or issue them a Form 1099-S. Because they do not receive a Form 1099-S and they choose to exclude the gain, they do not report the sale of the home on their tax return.

Worksheet 1. **Adjusted Basis of Home Sold—Illustrated Example 1 for Peter and Betty Clark**

Keep for Your Records

Caution: *See the Worksheet 1 Instructions before you use this worksheet.*

1.	Enter the purchase price of the home sold. (If you filed Form 2119 when you originally acquired that home to postpone gain on the sale of a previous home before May 7, 1997, enter the adjusted basis of the new home from that Form 2119.)		**1.**	$40,000
2.	Seller-paid points for home bought after 1990 (see Seller-paid points). Do not include any seller-paid points you already subtracted to arrive at the amount entered on line 1		**2.**	
3.	Subtract line 2 from line 1		**3.**	40,000
4.	Settlement fees or closing costs (see Settlement fees or closing costs). If line 1 includes the adjusted basis of the new home from Form 2119, skip lines 4a–4g and 5; go to line 6.			
a.	Abstract and recording fees	**4a.**		
b.	Legal fees (including fees for title search and preparing documents)	**4b.** 250		
c.	Survey fees	**4c.**		
d.	Title insurance	**4d.**		
e.	Transfer or stamp taxes	**4e.**		
f.	Amounts that the seller owed that you agreed to pay (back taxes or interest, recording or mortgage fees, and sales commissions)	**4f.**		
g.	Other	**4g.**		
5.	Add lines 4a through 4g		**5.**	250
6.	Cost of additions and improvements. Do not include any additions and improvements included on line 1		**6.**	2,000
7.	Special tax assessments paid 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.**	42,250
10.	Depreciation allowed or allowable, related to the business use or rental of the home	**10.**		
11.	Other decreases to basis (see Decreases to Basis), Do not include any postponed gain that reduced the adjusted basis of the new home reported from Form 2119 on line 1	**11.**		
12.	Add lines 10 and 11		**12.**	
13.	**Adjusted basis of home sold**. Subtract line 12 from line 9. Enter here and on Worksheet 2, line 4		**13.**	$42,250

Worksheet 2. **Taxable Gain on Sale of Home—Illustrated Example 1 for Peter and Betty Clark**

Keep for Your Records

Part 1. Gain or (Loss) on Sale			
1.	Selling price of home	**1.**	$395,000
2.	Selling expenses (including commissions, advertising and legal fees, and seller-paid loan charges)	**2.**	25,000
3.	Subtract line 2 from line 1. This is the amount realized	**3.**	370,000
4.	Adjusted basis of home sold (from Worksheet 1, line 13)	**4.**	42,250
5.	**Gain or (loss)** on the sale. Subtract line 4 from line 3. If this is a loss, stop here	**5.**	327,750
Part 2. Exclusion and Taxable Gain			
6.	Enter any depreciation allowed or allowable on the property for periods after May 6, 1997. If none, enter -0-	**6.**	-0-
7.	Subtract line 6 from line 5. If the result is less than zero, enter -0-	**7.**	327,750
8.	Aggregate number of days of nonqualified use after 2008. If none, enter -0-. If line 8 is equal to zero, skip to line 12 and enter the amount from line 7 on line 12	**8.**	-0-
9.	Number of days taxpayer owned the property	**9.**	
10.	Divide the amount on line 8 by the amount on line 9. Enter the result as a decimal (rounded to at least 3 places). But do not enter an amount greater than 1.00	**10.**	
11.	Gain allocated to nonqualified use. (Line 7 multiplied by line 10)	**11.**	
12.	Gain eligible for exclusion. Subtract line 11 from line 7	**12.**	327,750
13.	If you qualify to exclude gain on the sale, enter your maximum exclusion (see Maximum Exclusion). If you qualify for a reduced maximum exclusion, enter the amount from Worksheet 3, line 7. If you do not qualify to exclude gain, enter -0-	**13.**	500,000
14.	**Exclusion.** Enter the smaller of line 12 or line 13	**14.**	327,750
15.	**Taxable gain.** Subtract line 14 from line 5. Report your taxable gain as described under Reporting the Sale. **If the amount on line 6 is more than zero, complete line 16**	**15.**	-0-
16.	Enter the **smaller** of line 6 or line 15. Enter this amount on line 12 of the Unrecaptured Section 1250 Gain Worksheet in the instructions for Schedule D (Form 1040)	**16.**	-0-

Example 2. The facts are the same as in *Example 1*, except that Peter and Betty Clark sold their home for $695,000. Their gain on the sale is $627,750. Because they are married, meet the ownership and use tests, have no period of non-qualified use, and file a joint return for the year, they can exclude $500,000 of the gain.

Worksheet 1 remains the same as shown in *Example 1*. Their completed Worksheet 2 is shown next.

The Clarks report the sale of their home on Form 8949 and Schedule D (Form 1040). On their Form 8949, Part II, they report their selling price of $695,000 in column (d), and their adjusted basis of $42,250 in column (e). Because the adjustments they enter in column (g) include selling expenses (Code E) and excluded gain (Code H), they enter “EH” in column (f). In column (g) they enter $525,000 (the sum of their exclusion, $500,000, and their selling expenses, $25,000) as a negative number. Because their realized gain is $627,750 and they exclude $500,000, they enter $127,750 in column (h).

On their Schedule D (Form 1040), line 10, the Clarks include the selling price of $695,000 in column (d), their adjusted basis of $42,250 in column (e), their adjustments of $525,000 as a negative number in column (g), and their recognized gain of $127,750 in column (h).

Worksheet 2. **Taxable Gain on Sale of Home—Illustrated Example 2 for Peter and Betty Clark** *Keep for Your Records*

Part 1. Gain or (Loss) on Sale			
1.	Selling price of home	**1.**	$695,000
2.	Selling expenses (including commissions, advertising and legal fees, and seller-paid loan charges)	**2.**	25,000
3.	Subtract line 2 from line 1. This is the amount realized	**3.**	670,000
4.	Adjusted basis of home sold (from Worksheet 1, line 13)	**4.**	42,250
5.	**Gain or (loss)** on the sale. Subtract line 4 from line 3. If this is a loss, stop here	**5.**	627,750
Part 2. Exclusion and Taxable Gain			
6.	Enter any depreciation allowed or allowable on the property for periods after May 6, 1997. If none, enter -0-	**6.**	-0-
7.	Subtract line 6 from line 5. If the result is less than zero, enter -0-	**7.**	627,750
8.	Aggregate number of days of nonqualified use after 2008. If none, enter -0-. If line 8 is equal to zero, skip to line 12 and enter the amount from line 7 on line 12	**8.**	-0-
9.	Number of days taxpayer owned the property	**9.**	
10.	Divide the amount on line 8 by the amount on line 9. Enter the result as a decimal (rounded to at least 3 places). But do not enter an amount greater than 1.00	**10.**	
11.	Gain allocated to nonqualified use. (Line 7 multiplied by line 10)	**11.**	
12.	Gain eligible for exclusion. Subtract line 11 from line 7	**12.**	627,750
13.	If you qualify to exclude gain on the sale, enter your maximum exclusion (see *Maximum Exclusion*). If you qualify for a reduced maximum exclusion, enter the amount from Worksheet 3, line 7. If you do not qualify to exclude gain, enter -0-	**13.**	500,000
14.	**Exclusion.** Enter the smaller of line 12 or line 13	**14.**	500,000
15.	**Taxable gain.** Subtract line 14 from line 5. Report your taxable gain as described under *Reporting the Sale*. **If the amount on line 6 is more than zero, complete line 16**	**15.**	127,750
16.	Enter the **smaller** of line 6 or line 15. Enter this amount on line 12 of the Unrecaptured Section 1250 Gain Worksheet in the instructions for Schedule D (Form 1040)	**16.**	-0-

Example 3. Emily White, a single person, bought a home on May 1, 2001. She lived in the home until May 31, 2011, when she moved out and put it up for rent. Emily rented her home from June 1, 2011, until May 31, 2012. She moved back into the home and lived there until she sold it on January 11, 2013. She has no other gains or losses from the sale or exchange of any other property.

Emily can exclude gain on the sale of her home because she owned and lived in the home for at least 2 years of the 5-year period ending on the date of the sale.

Emily's records show the following.

Original cost	$ 50,000
Legal fees for title search	750
Back taxes paid for prior owner	1,500
Improvements (deck)	2,000
Selling price	195,000
Selling expenses, including commission	15,000
Depreciation claimed after May 6, 1997	1,791

Emily uses Worksheet 1 to figure the adjusted basis of the home she sold, $52,459. She uses Worksheet 2 to figure the gain on the sale, $127,541, and the amount of her exclusion, $115,061. Emily cannot exclude $1,791, the part of her gain equal to the depreciation claimed while the home was rented, nor can she exclude $10,689, the part of her gain allocated to nonqualified use.

Emily's completed Worksheet 1 appears next. Her completed Worksheet 2 follows.

Emily reports the sale in Part II of Form 8949 and Part II of Schedule D (Form 1040). On her Form 8949, Part II, she checks Box F. On line 1, she reports her selling price of $195,000 in column (d) and her adjusted basis of $52,459 in column (e). In column (g), she reports the sum of her exclusion and her selling expenses ($130,061) as a negative number. Because the adjustments she enters in column (g) include her selling expenses (Code E) and her exclusion (Code H), she enters “EH” in column (f). Because her realized gain is $127,541 and her exclusion is $115,061, she enters $12,480 as her recognized gain in column (h).

On her Schedule D (Form 1040), line 10, she enters her selling price of $195,000 in column (d), her adjusted basis of $52,549 in column (e), her adjustments of $130,061 as a negative number in column (g), and her recognized gain of $12,480 in column (h).

She enters $1,791 on line 12 of the Unrecaptured Section 1250 Gain Worksheet in the Schedule D (Form 1040) instructions. She has no gains or losses from the sale of property other than the gain from the sale of her home. Therefore, she also enters $1,791 on lines 13 and 18 of the worksheet and on line 19 of Schedule D. She then figures her tax using the Schedule D Tax Worksheet in the Schedule D (Form 1040) instructions.

Worksheet 1. **Adjusted Basis of Home Sold—Illustrated Example 3 for Emily White**

Keep for Your Records

Caution: *See the Worksheet 1 Instructions before you use this worksheet.*

1.	Enter the purchase price of the home sold. (If you filed Form 2119 when you originally acquired that home to postpone gain on the sale of a previous home before May 7, 1997, enter the adjusted basis of the new home from that Form 2119.)		**1.** $50,000
2.	Seller-paid points for home bought after 1990 (see *Seller-paid points*). Do not include any seller-paid points you already subtracted to arrive at the amount entered on line 1		**2.**
3.	Subtract line 2 from line 1		**3.** 50,000
4.	Settlement fees or closing costs (see *Settlement fees or closing costs*). If line 1 includes the adjusted basis of the new home from Form 2119, skip lines 4a–4g and 5; go to line 6		
a.	Abstract and recording fees	**4a.**	
b.	Legal fees (including fees for title search and preparing documents)	**4b.** 750	
c.	Survey fees	**4c.**	
d.	Title insurance	**4d.**	
e.	Transfer or stamp taxes	**4e.**	
f.	Amounts that the seller owed that you agreed to pay (back taxes or interest, recording or mortgage fees, and sales commissions)	**4f.** 1,500	
g.	Other	**4g.**	
5.	Add lines 4a through 4g		**5.** 2,250
6.	Cost of additions and improvements. Do not include any additions and improvements included on line 1		**6.** 2,000
7.	Special tax assessments paid 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.** 54,250
10.	Depreciation allowed or allowable, related to the business use or rental of the home	**10.** 1,791	
11.	Other decreases to basis (see *Decreases to Basis*). Do not include any postponed gain that reduced the adjusted basis of the new home reported from Form 2119 on line 1	**11.**	
12.	Add lines 10 and 11		**12.** 1,791
13.	**Adjusted basis of home sold**. Subtract line 12 from line 9. Enter here and on Worksheet 2, line 4		**13.** $52,459

Worksheet 2. **Taxable Gain on Sale of Home—Illustrated Example 3 for Emily White**

Keep for Your Records

Part 1. Gain or (Loss) on Sale			
1.	Selling price of home	**1.**	$195,000
2.	Selling expenses (including commissions, advertising and legal fees, and seller-paid loan charges)	**2.**	15,000
3.	Subtract line 2 from line 1. This is the amount realized	**3.**	180,000
4.	Adjusted basis of home sold (from Worksheet 1, line 13)	**4.**	52,459
5.	**Gain or (loss)** on the sale. Subtract line 4 from line 3. If this is a loss, stop here	**5.**	127,541
Part 2. Exclusion and Taxable Gain			
6.	Enter any depreciation allowed or allowable on the property for periods after May 6, 1997. If none, enter -0-	**6.**	1,791
7.	Subtract line 6 from line 5. If the result is less than zero, enter -0-	**7.**	125,750
8.	Aggregate number of days of nonqualified use after 2008. If none, enter -0-. If line 8 is equal to zero, skip to line 12 and enter the amount from line 7 on line 12	**8.**	365
9.	Number of days taxpayer owned the property	**9.**	4,272
10.	Divide the amount on line 8 by the amount on line 9. Enter the result as a decimal (rounded to at least 3 places). But do not enter an amount greater than 1.00	**10.**	.085
11.	Gain allocated to nonqualified use. (Line 7 multiplied by line 10)	**11.**	10,689
12.	Gain eligible for exclusion. Subtract line 11 from line 7	**12.**	115,061
13.	If you qualify to exclude gain on the sale, enter your maximum exclusion (see *Maximum Exclusion*). If you qualify for a reduced maximum exclusion, enter the amount from Worksheet 3, line 7. If you do not qualify to exclude gain, enter -0-	**13.**	250,000
14.	**Exclusion.** Enter the smaller of line 12 or line 13	**14.**	115,061
15.	**Taxable gain.** Subtract line 14 from line 5. Report your taxable gain as described under *Reporting the Sale*. **If the amount on line 6 is more than zero, complete line 16**	**15.**	12,480
16.	Enter the **smaller** of line 6 or line 15. Enter this amount on line 12 of the Unrecaptured Section 1250 Gain Worksheet in the instructions for Schedule D (Form 1040)	**16.**	$1,791

Special Situations

The situations that follow may affect your exclusion.

Sale of home acquired in a like-kind exchange. You cannot claim the exclusion if:

- You acquired your home in a like-kind exchange (also known as a section 1031 exchange), or your basis in your home is determined by reference to the basis of the home in the hands of the person who acquired the property in a like-kind exchange (for example, you received the home from that person as a gift), and
- You sold the home during the 5-year period beginning with the date your home was acquired in the like-kind exchange.

Gain from a like-kind exchange is not taxable at the time of the exchange. This means that gain will not be taxed until you sell or otherwise dispose of the property you receive. To defer gain from a like-kind exchange, you must have exchanged business or investment property for business or investment property of a like kind. For more information about like-kind exchanges, see Publication 544.

Home relinquished in a like-kind exchange. The same tests that apply to determine if you qualify to exclude gain from the sale of your main home (discussed earlier) also apply to determine if you qualify to exclude gain from the exchange of your main home for another property. Under certain circumstances, you may meet the requirements for both the exclusion of gain from the exchange of a main home and the nonrecognition of gain from a like-kind exchange (discussed above under *Sale of home acquired in a like-kind exchange*). This can occur if you used your property as your main home for a period before the exchange that meets the use test, but at the time of the exchange, you used your home for business or rental purposes. This can also occur if you used your main home partly for business or rental purposes and then exchanged the home. In these situations, you would first exclude the gain from the sale of your main home to the extent allowable, and then apply the nonrecognition of gain provisions of section 1031 for like-kind exchanges to defer any remaining gain. For more information, see Revenue Procedure 2005-14, 2005-7 I.R.B. 528, available at www.irs.gov/irb/2005-07_IRB/ar10.html.

Expatriates. You cannot claim the exclusion if the expatriation tax applies to you. The expatriation tax applies to certain U.S. citizens who have renounced their citizenship (and to certain long-term residents who have ended their residency). For more information about the expatriation tax, see chapter 4 of Publication 519, U.S. Tax Guide for Aliens.

Home destroyed or condemned. If your home was destroyed or condemned, any gain (for example, because of insurance proceeds you received) qualifies for the exclusion.

Any part of the gain that cannot be excluded (because it is more than the maximum exclusion) can be postponed under the rules explained in:

- Publication 547, in the case of a home that was destroyed, or
- Publication 544, chapter 1, in the case of a home that was condemned.

Sale of remainder interest. Subject to the other rules in this publication, you can choose to exclude gain from the sale of a remainder interest in your home. If you make this choice, you cannot choose to exclude gain from your sale of any other interest in the home that you sell separately.

Exception for sales to related persons. You cannot exclude gain from the sale of a remainder interest in your home to a related person. Related persons include your brothers, sisters, half-brothers, half-sisters, spouse, ancestors (parents, grandparents, etc.), and lineal descendants (children, grandchildren, etc.). Related persons also include certain corporations, partnerships, trusts, and exempt organizations.

Deducting Taxes in the Year of Sale

When you sell your main home, treat real estate and transfer taxes on that home as discussed in this section.

Real estate taxes. You and the buyer must deduct the real estate taxes on your home for the year of sale according to the number of days in the real property tax year (the period to which the tax relates) that each owned the home.

- You are treated as paying the taxes up to, but not including, the date of sale. You can deduct these taxes as an itemized deduction on Schedule A (Form 1040) in the year of sale. It does not matter what part of the taxes you actually paid.
- The buyer is treated as paying the taxes beginning with the date of sale.

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 or her basis in the property.

Example. The tax on Dennis and Beth White's home was $620 for the year. Their real property tax year was the calendar year, with payment due August 1, 2013. They sold the home on May 7, 2013. Dennis and Beth are considered to have paid a proportionate share of the real estate taxes on the home even though they did not actually pay them to the taxing authority.

Dennis and Beth owned their home during the 2013 real property tax year for 126 days (January 1 to May 6, the day before the sale). They figure their deduction for taxes as follows.

1.	Total real estate taxes for the real property tax year	$620
2.	Number of days in the real property tax year that you owned the property	126
3.	Divide line 2 by 365 (366 if leap year)	.345
4.	Multiply line 1 by line 3. This is your deduction. Enter it on line 6 of Schedule A (Form 1040)	$214

Since the buyers paid all of the taxes, Dennis and Beth also include the $214 in the home's selling price. The buyers add the $214 to their basis in the home. The buyers can deduct $406 ($620 – $214) as an itemized deduction, the taxes for the part of the year they owned the home.

Form 1099-S. If the person responsible for closing the sale (in most cases the settlement agent) must file Form 1099-S, the information reported on the form to you and the IRS must include (in box 5) the part of any real estate tax charged to the buyer. 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 as an itemized deduction.

More information. 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.

Recapturing (Paying Back) a Federal Mortgage 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. You may have to pay this recapture tax even if you can exclude your gain from income under the rules discussed earlier; that exclusion does not affect the recapture tax.

Loans subject to recapture rules. The recapture applies to loans that:

1. Came from the proceeds of qualified mortgage bonds, or
2. Were based on mortgage credit certificates.

The recapture also applies to assumptions of these loans.

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 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 (other than to your spouse or ex-spouse incident to divorce), you are considered to have sold or disposed of 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 recapture applies. Recapture of the federal mortgage subsidy applies only if you meet both of the following conditions.

- You sell or otherwise dispose of your home at a gain within the first 9 years after the date you close your mortgage loan.
- Your income for the year of disposition is more than 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. Recapture does not apply in any of the following situations.

- Your mortgage loan was a qualified home improvement loan (QHIL) of not more than $15,000 used for alterations, repairs, and improvements that protect or improve the basic livability or energy efficiency of your home.
- Your mortgage loan was a QHIL of not more than $150,000 in the case of a QHIL used to repair damage from Hurricane Katrina to homes in the hurricane disaster area; a QHIL funded by a qualified mortgage bond that is a qualified Gulf Opportunity Zone Bond; or a QHIL for an owner-occupied home in the Gulf Opportunity Zone (GO Zone), Rita GO Zone, or Wilma GO Zone. For more information, see Publication 4492, Information for Taxpayers Affected by Hurricanes Katrina, Rita, and Wilma. Also see Publication 4492-B, Information for Affected Taxpayers in the Midwestern Disaster Areas.
- 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 replace it on its original site within 2 years after the end of the tax year when the destruction happened. The replacement period is extended for main homes destroyed in a federally declared disaster area, a Midwestern disaster area, the Kansas disaster area,

and in the Hurricane Katrina disaster area. For more information, see *Replacement Period* in Publication 547.

- You refinance your mortgage loan (unless you later meet the conditions listed previously under *When 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 other information you will need to figure your recapture tax.

How to figure and report the recapture. The recapture tax is figured on Form 8828. If you sell your home and your mortgage loan is subject to the recapture rules, you must file Form 8828 even if you do not owe a recapture tax. Attach Form 8828 to your Form 1040. For more information, see Form 8828 and its instructions.

Recapture of First-Time Homebuyer Credit

Recapture of 2008 first-time homebuyer credit. If you claimed the first-time homebuyer credit for a home you purchased in 2008, you may have to recapture all or a portion of the amount you claimed. For a home purchased in 2008, you must repay the first-time homebuyer credit over a period of 15 years, starting in 2010. If your home ceases to be your main home before the end of the 15-year period, you generally must include all remaining annual installments as additional tax on the tax return for that year. Your home ceases to be your main home if you sell the home, convert the home to business or rental property use, or the home is destroyed, condemned, or disposed of under the threat of condemnation. In the event of a sale or other conversion you will need to file Form 5405 with your tax return. In the case of the sale of the principal residence to a person who is not related to the taxpayer, the recapture does not exceed the amount of gain, if any, on that sale. Solely for purposes of figuring this gain limitation, reduce the basis by the amount of the credit that has not been repaid.

Example. Dan and Pat purchased a home in 2008 for $200,000 and received a first-time homebuyer credit of $7,500. They repaid a total of $1,500 as an additional tax on their 2010, 2011, and 2012 returns ($500, or 1/15th of $7,500, for each of 2010, 2011, and 2012). They sold the home in 2013 to an unrelated person for $195,000. Because they sold their home in 2013, they must repay the balance of the credit on their 2013 return. However, since they sold the home to an unrelated person, the amount they must repay is limited to the gain on the sale. In order to calculate the gain they must reduce the adjusted basis of the home by the amount of the credit they have not yet repaid. The amount of the credit they have not yet repaid is $6,000 ($7,500 – $1,500). Thus, they must reduce their basis in the home to $194,000 ($200,000 – $6,000). Therefore, the gain (for purposes of limiting the amount of credit they must repay on their 2013 return) is $1,000 ($195,000 – $194,000). They must report the $1,000 as an additional tax on their 2013 return(s).

CAUTION *Adjusted basis is reduced by the amount of the unrecaptured first-time homebuyer credit only for purposes of figuring how much of the credit must be recaptured. Do not use this basis for figuring gain or for reporting basis or gain on Schedule D (Form 1040) or Form 8949.*

Recapture of the post-2008 first-time homebuyer credit. If you claimed the first-time homebuyer credit for a home you purchased after 2008, the credit is not required to be repaid unless your home ceases to be your main home within 36 months of the date of purchase. See the Instructions for Form 5405 for additional information.

Exceptions. If one of the following applies, you may not have to recapture the first-time homebuyer credit.

- Death.
- Involuntary conversion (see definition under the section *Dispositions Other Than Sales*, earlier).
- Transfers between spouses or incident to divorce.
- You are a member of the uniformed services, an employee of the intelligence community, or a member of the Foreign Service of the United States on qualified official extended duty service.

TIP *For details, see Form 5405 and its instructions.*

For more information and assistance, see IRS.gov and click on “Tools” to access the “First-Time Homebuyer Credit Account Look-up” tool.

Worksheets

The worksheets on the following pages are provided to help you figure the adjusted basis of your home; your gain or (loss), exclusion, and taxable gain on the sale of your home; and the reduced maximum exclusion. Keep any completed worksheets with your tax records; do not submit them with your tax return.

Worksheet 1 Instructions. **Adjusted Basis of Home Sold** *Keep for Your Records*

If you use Worksheet 1 to figure the adjusted basis of your home, follow these instructions. DO NOT use this worksheet to determine your basis if you acquired an interest in your home from a decedent who died in 2010 and whose executor filed Form 8939.

IF...		**THEN...**
you inherited your home from a decedent who died either before or after 2010 or from a decedent who died in 2010 and whose executor did not file Form 8939	1	skip lines 1–4 of the worksheet.
	2	find your basis using the rules under *Home received as inheritance*. Enter this amount on line 5.
	3	fill out lines 6–13.
you received your home as a gift	1	read *Home received as gift* and enter on lines 1 and 3 of the worksheet either the donor's adjusted basis or the home's fair market value at the time of the gift, whichever is appropriate.
	2	if you can add any federal gift tax to your basis, enter that amount on line 5.
	3	fill out lines 6–13.
you received your home as a trade for other property	1	enter on line 1 of the worksheet the fair market value of the other property at the time of the trade. (But if you received your home as a trade for your previous home before May 7, 1997, and had a gain on the trade that you postponed using Form 2119, enter on line 1 of the worksheet the adjusted basis of the new home from that Form 2119.)
	2	fill out lines 2–13.
you built your home	1	add the purchase price of the land and the cost of building the home. See *Construction*. Enter that total on line 1 of the worksheet. (However, if you filed a Form 2119 to postpone gain on the sale of a previous home before May 7, 1997, enter on line 1 of the worksheet the adjusted basis of the new home from that Form 2119.)
	2	fill out lines 2–13.
you received your home from your spouse after July 18, 1984	1	skip lines 1–4 of the worksheet.
	2	enter on line 5 your spouse's adjusted basis in the home just before you received it.
	3	fill out lines 6–13, including adjustments to basis only for events after the transfer.
you owned a home jointly with your spouse, who transferred his or her interest in the home to you after July 18, 1984		fill out one worksheet, including adjustments to basis for events both before and after the transfer.
you received your home from your spouse before July 19, 1984	1	skip lines 1–4 of the worksheet.
	2	enter on line 5 the home's fair market value at the time you received it.
	3	fill out lines 6–13, including adjustments to basis only for events after the transfer.
you owned a home jointly with your spouse, who transferred his or her interest in the home to you before July 19, 1984	1	fill out lines 1–13 of the worksheet, including adjustments to basis only for events before the transfer.
	2	multiply the amount on line 13 by 50% (.50) to get the adjusted basis of your half-interest at the time of the transfer.
	3	multiply the fair market value of the home at the time of the transfer by 50% (.50). In most cases, this is the basis of the half-interest that your spouse owned.
	4	add the amounts from steps 2 and 3 and enter the total on line 5 of a **second** worksheet.
	5	complete lines 6–13 on the second worksheet, including adjustments to basis only for events after the transfer.
you owned your home jointly with a nonspouse	1	fill out lines 1–13 of the worksheet.
	2	multiply the amount on line 13 by your percentage of ownership to get the adjusted basis of your part-interest.

IF...		THEN...
you owned your home jointly with your spouse who died before 2010 and before the sale	1	fill out lines 1–13 of the worksheet, including adjustments to basis only for events before your spouse's death.
	2	multiply the amount on line 13 by 50% (.50) to get the adjusted basis of your half-interest on the date of death.
	3	multiply the fair market value on the date of death (or later alternate valuation used for estate or inheritance tax) by 50% (.50). This is the basis for your spouse's half-interest.
	4	add the amounts from steps 2 and 3 and enter the total on line 5 of a **second** worksheet.
	5	complete lines 6–13 on the second worksheet, including adjustments to basis only for events after your spouse's death.
you owned your home jointly with your spouse who died before 2010 and before the sale, and your permanent legal home is in a community property state	1	skip lines 1–4 of the worksheet.
	2	enter the basis of the home on line 5. In most cases, this is the total fair market value of the home at the time of death. (See Community property.)
	3	fill out lines 6–13, including adjustments to basis only for events after your spouse's death.
you owned your home jointly with a nonspouse who died before 2010 and before the sale	1	fill out lines 1–13 of the worksheet, including adjustments to basis only for events before the co-owner's death.
	2	multiply the amount on line 13 by your percentage of ownership to get the adjusted basis of your part-interest on the date of death.
	3	multiply the fair market value on the date of death (or later alternate valuation used for estate or inheritance tax) by the co-owner's percentage of ownership. This is the basis for the co-owner's part-interest.
	4	add the amounts from steps 2 and 3 and enter the total on line 5 of a **second** worksheet.
	5	complete lines 6–13 on the second worksheet, including adjustments to basis only for events after the co-owner's death.
your home was ever damaged as the result of a casualty	1	in addition to lines 6–13, including other lines of the worksheet you may need to fill out, on line 8 enter any amounts you spent to restore the home to its condition before the casualty.
	2	on line 11 enter: • any insurance reimbursements you received (or expect to receive) for the loss, and • any deductible casualty losses not covered by insurance.
none of these items apply		fill out entire worksheet.

Worksheet 1. **Adjusted Basis of Home Sold** *Keep for Your Records*

Caution: *See the Worksheet 1 Instructions before you use this worksheet.*

1.	Enter the purchase price of the home sold. (If you filed Form 2119 when you originally acquired that home to postpone gain on the sale of a previous home before May 7, 1997, enter the adjusted basis of the new home from that Form 2119.)		**1.**
2.	Seller-paid points for home bought after 1990 (see *Seller-paid points*). Do not include any seller-paid points you already subtracted to arrive at the amount entered on line 1		**2.**
3.	Subtract line 2 from line 1		**3.**
4.	Settlement fees or closing costs (see *Settlement fees or closing costs*). If line 1 includes the adjusted basis of the new home from Form 2119, skip lines 4a–4g and 5; go to line 6.		
a.	Abstract and recording fees	**4a.**	
b.	Legal fees (including fees for title search and preparing documents)	**4b.**	
c.	Survey fees	**4c.**	
d.	Title insurance	**4d.**	
e.	Transfer or stamp taxes	**4e.**	
f.	Amounts that the seller owed that you agreed to pay (back taxes or interest, recording or mortgage fees, and sales commissions)	**4f.**	
g.	Other	**4g.**	
5.	Add lines 4a through 4g		**5.**
6.	Cost of additions and improvements. Do not include any additions and improvements included on line 1		**6.**
7.	Special tax assessments paid 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.**
10.	Depreciation allowed or allowable, related to the business use or rental of the home	**10.**	
11.	Other decreases to basis (see *Decreases to Basis*). Do not include any postponed gain that reduced the adjusted basis of the new home reported from Form 2119 on line 1	**11.**	
12.	Add lines 10 and 11		**12.**
13.	**Adjusted basis of home sold**. Subtract line 12 from line 9. Enter here and on Worksheet 2, line 4		**13.**

Worksheet 2. **Taxable Gain on Sale of Home** *Keep for Your Records*

Part 1. Gain or (Loss) on Sale

1.	Selling price of home	**1.**	
2.	Selling expenses (including commissions, advertising and legal fees, and seller-paid loan charges)	**2.**	
3.	Subtract line 2 from line 1. This is the amount realized	**3.**	
4.	Adjusted basis of home sold (from Worksheet 1, line 13)	**4.**	
5.	**Gain or (loss)** on the sale. Subtract line 4 from line 3. If this is a loss, stop here	**5.**	

Part 2. Exclusion and Taxable Gain

6.	Enter any depreciation allowed or allowable on the property for periods after May 6, 1997. If none, enter -0-	**6.**	
7.	Subtract line 6 from line 5. If the result is less than zero, enter -0-	**7.**	
8.	Aggregate number of days of nonqualified use after 2008. If none, enter -0-. If line 8 is equal to zero, skip to line 12 and enter the amount from line 7 on line 12	**8.**	
9.	Number of days taxpayer owned the property	**9.**	
10.	Divide the amount on line 8 by the amount on line 9. Enter the result as a decimal (rounded to at least 3 places). But do not enter an amount greater than 1.00	**10.**	
11.	Gain allocated to nonqualified use. (Line 7 multiplied by line 10)	**11.**	
12.	Gain eligible for exclusion. Subtract line 11 from line 7	**12.**	
13.	If you qualify to exclude gain on the sale, enter your maximum exclusion (see *Maximum Exclusion*). If you qualify for a reduced maximum exclusion, enter the amount from Worksheet 3, line 7. If you do not qualify to exclude gain, enter -0-	**13.**	
14.	**Exclusion**. Enter the smaller of line 12 or line 13	**14.**	
15.	**Taxable gain**. Subtract line 14 from line 5. Report your taxable gain as described under *Reporting the Sale*. **If the amount on line 6 is more than zero, complete line 16**	**15.**	
16.	Enter the **smaller** of line 6 or line 15. Enter this amount on line 12 of the Unrecaptured Section 1250 Gain Worksheet in the instructions for Schedule D (Form 1040)	**16.**	

Worksheet 3. **Reduced Maximum Exclusion** *Keep for Your Records*

Caution: *Complete this worksheet only if you qualify for a reduced maximum exclusion (see* Reduced Maximum Exclusion*). Complete column (a).*

			(a) You	(b) Your Spouse
1.	Maximum amount	1.	$250,000	$250,000
2 a.	Enter the number of days (or months) that you used the property as a main home during the 5-year period* ending on the date of sale	2a.		
b.	Enter the number of days (or months) that you owned the property during the 5-year period* ending on the date of sale. If you used days on line 2a, you also must use days on this line and on lines 3 and 5. If you used months on line 2a, you also must use months on this line and on lines 3 and 5. (If married filing jointly and one spouse owned the property longer than the other spouse, both spouses are treated as owning the property for the longer period.)	b.		
c.	Enter the smaller of line 2a or 2b	c.		
3.	Have you (or your spouse, if filing jointly) excluded gain from the sale of another home during the 2-year period ending on the date of this sale? ☐ **No.** Skip line 3 and enter the number of days (or months) from line 2c on line 4. ☐ **Yes.** Enter the number of days (or months) between the date of the most recent sale of another home on which you excluded gain and the date of sale of this home	3.		
4.	Enter the smaller of line 2c or 3	4.		
5.	Divide the amount on line 4 by 730 days (or 24 months). Enter the result as a decimal (rounded to at least 3 places). But do not enter an amount greater than 1.000	5.		
6.	Multiply the amount on line 1 by the decimal amount on line 5	6.		
7.	**Reduced maximum exclusion.** Add the amounts in columns (a) and (b) of line 6. Enter it here and on Worksheet 2, line 13	7.		

***If you were a member of the uniformed services or Foreign Service, an employee of the intelligence community, or an employee or volunteer of the Peace Corps during the time you owned the home, see *Members of the uniformed services or Foreign Service, employees of the intelligence community, or employees or volunteers of the Peace Corps* to determine your 5-year period.**

How To Get Tax Help

Whether it's help with a tax issue, preparing your tax return or a need for a free publication or form, get the help you need the way you want it: online, use a smart phone, call or walk in to an IRS office or volunteer site near you.

Free help with your tax return. You can get free help preparing your return nationwide from IRS-certified volunteers. The Volunteer Income Tax Assistance (VITA) program helps low-to-moderate income, elderly, people with disabilities, and limited English proficient taxpayers. The Tax Counseling for the Elderly (TCE) program helps taxpayers age 60 and older with their tax returns. Most VITA and TCE sites offer free electronic filing and all volunteers will let you know about credits and deductions you may be entitled to claim. In addition, some VITA and TCE sites provide taxpayers the opportunity to prepare their own return with help from an IRS-certified volunteer. To find the nearest VITA or TCE site, you can use the VITA Locator Tool on IRS.gov, download the IRS2Go app, or call 1-800-906-9887.

As part of the TCE program, AARP offers the Tax-Aide counseling program. To find the nearest AARP Tax-Aide site, visit AARP's website at *www.aarp.org/money/taxaide* or call 1-888-227-7669. For more information on these programs, go to IRS.gov and enter “VITA” in the search box.

Internet. IRS.gov and **IRS2Go** are ready when you are —24 hours a day, 7 days a week.

- Download the free IRS2Go app from the iTunes app store or from Google Play. Use it to check your refund status, order transcripts of your tax returns or tax account, watch the IRS YouTube channel, get IRS news as soon as it's released to the public, subscribe to filing season updates or daily tax tips, and follow the IRS Twitter news feed, @IRSnews, to get the latest federal tax news, including information about tax law changes and important IRS programs.
- Check the status of your 2013 refund with the *Where's My Refund?* application on IRS.gov or download the IRS2Go app and select the *Refund Status* option. The IRS issues more than 9 out of 10 refunds in less than 21 days. Using these applications, you can start checking on the status of your return within 24 hours after we receive your e-filed return or 4 weeks after you mail a paper return. You will also be given a personalized refund date as soon as the IRS processes your tax return and approves your refund. The IRS updates *Where's My Refund?* every 24 hours, usually overnight, so you only need to check once a day.