Sale of Personal Residence Tax Summary

Gain May Be Excluded from Taxable Income
There may be little or no tax on the gain from the sale of a personal residence that is the taxpayer’s main home. A gain of up to $250,000 ($500,000 for joint returns) may be excluded from taxable income. Joint owners who are not married may each exclude up to $250,000 of gain. This exclusion may be claimed repeatedly (unlike previous regulations which allowed a one-in-a-lifetime exclusion), but only once every two years.

Two Tests
To qualify as a main home, two tests must be met. During the five-year period* ending on the date of sale, the taxpayer must meet the following tests:

- **Ownership test**—owned the home for at least two years.

  - and -

- **Use test**—lived in the home as a main home for at least two years.

* Special Provision for Military and Foreign Service Personnel
In December 2003, legislation was enacted to extend the qualification period to ten years for military and Foreign Service personnel who have foreign assignments and cannot meet the two-out-of-five year ownership and use tests. Use of the home as a main residence for two years is required, but up to ten years is allowed to qualify for the exclusion.

Reporting the Sale
Unless the taxpayer has a taxable gain, it is not necessary to report the sale. A taxable gain is reported on Schedule D (Form 1040). For more information about tax treatment of the sale of a personal residence and worksheets for calculating the gain, refer to IRS Publication 523, Selling Your Home.
Excerpt from www.irs.gov

Tax Topic 415 - Renting Residential and Vacation Property (formerly Renting Vacation Property and Renting to Relatives)

If you receive rental income from renting to others a dwelling unit, such as a house or an apartment, to others, you may deduct certain expenses. These expenses, which may include interest, taxes, casualty losses, maintenance, utilities, insurance, and depreciation, will reduce the amount of rental income that is taxed. You will generally report such income and expenses on Schedule E, Form 1040. If you are renting to make a profit and do not use the dwelling unit as a home, your deductible rental expenses can be more than your gross rental income, subject to certain limits. For information on these limits, refer to Topic 425, Passive Activities – Losses and Credits. However, if you rent a dwelling unit that you also use as a home, your deductible rental expenses are subject to stricter limitations.

You are considered to use a dwelling unit as a home if you use it for personal purposes during the tax year for more than the greater of: 14 days or 10% of the total days it is rented to others at a fair rental price. It is possible that you will use more than one dwelling unit as a home during the year. For example, if you live in your main home for 11 months, your home is a dwelling unit. If you live in your vacation home for the other 30 days of the year, your vacation home is also a dwelling unit, unless you rent your vacation home to others at a fair rental value for more than 300 days during the year.

A day of personal use of a dwelling unit is any day that it is used by:
- You or any other person who has an interest in it, unless you rent your interest to another owner as his or her main home under a shared equity financing agreement;
- A member of your family or of a family of any other person who has an interest in it, unless the family member uses it as his or her main home and pays a fair rental price;
- Anyone under an agreement that lets you use some other dwelling unit; or
- Anyone at less than fair rental price.

If you use the dwelling unit for both rental and personal purposes, you generally must divide your total expenses between the rental use and the personal use based on the number of days used for each purpose. However, you will not be able to deduct all your expenses of rental use if your rental expenses exceed your gross rental income. If you itemize your deductions on Schedule A, Form 1040, you may still be able to deduct mortgage interest, property taxes, and casualty losses on that schedule. There is a special rule if you use a dwelling as a home and rent it for fewer than 15 days. In this case, do not report any of the rental income and do not deduct any expenses as rental expenses. Another special rule applies if you rent part of your home to your employer and provide services for your employer in that rented space. In this case, report the rental income, but do not deduct any expenses as rental expenses. Refer to Publication 527, Residential Rental Property (Including Rental of Vacation Homes).