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Publications

Publication 523 - Introductory Material

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Important Change

New rule for members of the uniformed services or Foreign Service. If you have been a member of the uniformed services or Foreign Service, you now may be able to exclude from income a gain from selling your main home, even if you did not live in it the required 2 years during the 5-year period ending on the date of sale. This change applies to any sale of a main home after May 6, 1997, so you may be able to claim a refund if you paid tax on a gain from a sale after that date. For details, see *Members of the uniformed services or Foreign Service* under *Ownership and Use Tests*, later.

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.)

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*.

Photographs of missing children. The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling **1-800-THE-LOST (1-800-843-5678)** if you recognize a child.

Introduction

This publication explains the tax rules that apply when you sell your main home. Generally, your main home is the one in which you live most of the time.

If you sold your main home in 2003, you may be able to exclude from income any gain up to a limit of \$250,000 (\$500,000 on a joint return in most cases). See *Excluding the Gain*, later. If you can exclude all of the gain, you do not need to report the sale on your tax return.

If you have gain that cannot be excluded, it is taxable. Report it on Schedule D (Form 1040). You may also have to include Form 4797, *Sales of Business Property*. See *Reporting the Sale*, later.

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

The main topics in this publication are:

- Figuring gain or loss,
- Basis,

- Excluding the gain,
- Ownership and use tests, and
- Reporting the sale.

Other topics include:

- Business use or rental of home,
- Deducting taxes in the year of sale, and
- Recapturing a federal mortgage subsidy.

Worksheets. This publication includes worksheets you can use to figure your gain (or loss) and your exclusion. Use *Worksheet 1* to figure the adjusted basis of the home you sold. Use *Worksheet 2* to figure the gain (or loss), the exclusion, and the taxable gain (if any) on the sale. In some situations, you may also need to use *Worksheet 3* to figure a reduced maximum exclusion.

Sale before May 7, 1997. If you sold your main home before May 7, 1997, and postponed the gain while serving in the Armed Forces, see Publication 3, *Armed Forces' Tax Guide*, for special rules that are not covered in this publication.

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

What is not covered in this publication. This publication does not cover the sale of rental property, second homes, or vacation homes. For information on how to report those sales, see Publication 544, *Sales and Other Dispositions of Assets*.

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

You can e-mail us at *taxforms@irs.gov. Please put "Publications Comment" on the subject line.

You can write to us at the following address:

Internal Revenue Service
Individual Forms and Publications Branch
SE:W:CAR:MP:T:I
1111 Constitution Ave. NW
Washington, DC 20224

We respond to many letters by telephone. Therefore, it would be helpful if you would include your daytime phone number, including the area code, in your correspondence.

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
- 547 Casualties, Disasters, and Thefts
- 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
- 4797
Sales of Business Property
- 8822
Change of Address
- 8828
Recapture of Federal Mortgage Subsidy

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

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