

Home Sale Exclusion Taxpayer Guide

A practical guide to the federal rules

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2026 Edition | Reviewed October 23, 2026

Selling your main home may let you exclude up to \$250,000 of gain from federal income tax, or up to \$500,000 for a qualifying married couple filing jointly. These are limits on gain, not on the selling price or the cash you receive at closing. Eligibility depends on ownership, residence, prior home sales, and sometimes rental or business use. ^[1,2]

The exclusion amounts

Your situation	Potential exclusion of gain
Single, head of household, or married filing separately	Up to \$250,000 per qualifying seller
Married filing jointly	Up to \$500,000 if the joint rules are met
Surviving spouse meeting the special sale rules	Up to \$500,000 under the special two-year rule

The limits remain \$250,000 and \$500,000 for 2026. Marriage alone does not establish eligibility, and neither does owning a home for many years. ^[1,2]

The three usual tests

- **Ownership.** You owned the home for at least two years during the five years ending on the sale date.
- **Residence.** You used it as your main home for at least two years during that same five-year window.
- **Prior sale.** Generally, you did not use this exclusion on another home sold during the two years before the current sale. The actual sale dates matter. ^[1,2]

The ownership and residence periods do not have to be continuous or coincide. The residence requirement generally means 24 months or 730 days. Married couples have the additional rules on page 2, and exceptions may help when a test is not met. ^[1]

What counts as your main home

This is generally the home where you actually live most of the time. A house, condominium, or qualifying mobile home can be a main home. A vacation property does not qualify merely because you own it or change your mailing address. When you use several homes, we review the facts. ^[1,2]

Before setting the closing date, ask us to check your eligibility. Waiting until a requirement is met can change how much gain you may exclude.

Marriage and joint ownership

Qualifying for the joint exclusion

For a married couple to use the full \$500,000 ceiling on one home sale, all of the following generally must be true: ^[1]

- You file a **joint federal income tax return for the year of sale**.
- **At least one spouse** meets the two-year ownership test.
- **Both spouses** meet the two-year main-home residence test.
- **Neither spouse** is disqualified by an excluded sale of another home within the preceding two years.

You do not have to be married for two years

Time living in the home before the wedding counts. For most taxpayers, marital status is determined on December 31. A wedding after closing can therefore still allow the joint \$500,000 ceiling if you are married at year-end, file jointly, and satisfy the other requirements. ^[1,4]

Example. Jordan has owned and lived in a home since 2018. Casey moves in on May 1, 2024. Jordan sells the home on July 15, 2026, with \$460,000 of gain. They marry in October and file a joint 2026 return. Both have enough residence time, Jordan meets ownership, and neither has a disqualifying prior sale. Assuming no rental or depreciation limitations, all \$460,000 may be excluded. ^[1,4]

When one spouse falls short

If only one spouse meets the full residence test, the couple may still have a \$250,000 exclusion. A qualifying work move, health reason, or unforeseen event can allow the other spouse a reduced amount too. We calculate each spouse separately; for this joint-return calculation, each is credited with the ownership period of either spouse. See page 5. ^[1,3]

When the owners are not married

Two unmarried co-owners can each qualify for up to \$250,000, but **each must independently meet the tests**. Each exclusion applies only to that owner's share of the gain, determined from the ownership interest and tax basis. Simply dividing the closing proceeds differently does not transfer an exclusion. Living with the owner, without having an ownership interest, does not create a separate exclusion. ^[1]

Example. Two qualifying owners each have a \$240,000 share of the gain. Each can exclude that share. If their allocated gains are instead \$350,000 and \$130,000, the first owner generally has \$100,000 of taxable gain. The second owner cannot transfer an unused exclusion to the first. These examples assume no other limitations. ^[1]

Tell us about every owner and every recent home sale. A prior excluded sale by one spouse can prevent the full joint \$500,000 ceiling, even if the other spouse has not sold a home. ^[1]

Calculate the gain before the tax

The starting calculation is **selling price minus qualifying selling expenses minus adjusted basis**. Basis is your investment in the home for tax purposes. It generally starts with the purchase cost, including qualifying acquisition costs, increases for qualifying improvements, and decreases for items such as depreciation and certain credits or reimbursements. ^[2,5]

A simple sale example

Calculation	Amount
Selling price	\$800,000
Less qualifying selling expenses	(\$50,000)
Net amount realized	\$750,000
Less adjusted basis	(\$300,000)
Gain before the exclusion	\$450,000

Assume a \$250,000 purchase cost plus \$50,000 of qualifying improvements, no other basis adjustments, and no rental or depreciation limitations. A qualifying single seller can exclude \$250,000, leaving **\$200,000 of taxable gain**. A qualifying couple with the full \$500,000 ceiling can exclude all \$450,000. ^[1,5]

Your mortgage balance does not measure your gain

Paying off a \$200,000 mortgage at closing does not reduce the \$450,000 gain in this example. After selling expenses and that payoff, you receive \$550,000 before other closing adjustments, while the tax gain remains \$450,000. Borrowing against the home or paying down a loan does not, by itself, change your basis. ^[2,5]

Keep the improvement records

Examples of potential improvements include an addition, a new roof, or a major kitchen remodel. Routine maintenance and repairs generally do not increase basis unless they are part of a qualifying larger improvement. Save invoices, proof of payment, and information about related tax credits or insurance proceeds. Gifts, inheritances, and transfers between spouses need separate basis review. ^[2,5]

Three common misconceptions

- **You do not have to buy another home.** Reinvesting the proceeds is not a condition of the current exclusion. Buying a more expensive replacement home does not erase otherwise taxable gain. ^[1]
- **There is no age 55 requirement.** This is also not a once-in-a-lifetime benefit; qualifying sales may recur, subject to the timing rules. ^[1]
- **A personal-home loss is generally not deductible.** A low selling price does not necessarily create a tax deduction. ^[6]

Rental use and home offices

Living in a former rental for two years does not automatically make all of its gain tax-free. Two separate rules can leave taxable gain even when you meet the usual ownership and residence tests. ^[1,2]

Depreciation can leave taxable gain

The portion of gain attributable to depreciation allowed or allowable for periods after May 6, 1997, cannot be excluded. This can arise from renting the home or using part of it for business. Failing to claim depreciation you were entitled to take generally does not avoid this rule. ^[1,2]

Depending on the facts, this gain may be unrecaptured section 1250 gain, subject to a maximum federal rate of 25%. Other depreciation recapture rules can apply. The home-sale exclusion does not make this portion disappear. ^[6]

Earlier rental or vacation use can limit the exclusion

Certain periods after 2008 when the property was not the main home of you, your spouse, or a former spouse are called **nonqualified use**. Part of the gain may be allocated to those periods and remain taxable. Renting the property before moving in is a common example. ^[1,2]

Simplified example. You buy a home, rent it for three years after 2008, then live in it for two years and sell. Assuming no exception applies, three-fifths of the gain remaining after separating depreciation is allocated to nonqualified use. Only the remaining portion is potentially eligible for the exclusion. The depreciation-related gain is considered separately. ^[1]

Renting after you move out can be different

The period after your final use as a main home, within the five years before sale, is generally excepted from the nonqualified-use allocation. That exception does not eliminate the two-out-of-five-year residence test or the depreciation rule. Confirm the dates before extending a lease or delaying a sale. ^[1,2]

Example. You live in a home for three years, move out, rent it for one year, and sell. The final rental year generally does not create a nonqualified-use allocation. You may still qualify for the exclusion, but the gain attributable to rental depreciation remains taxable. ^[1,2]

Tell us about all business use

A home office, rented room, duplex, detached rental unit, or other separate business space can require different calculations. Bring the prior depreciation schedules, dates of use, and details of the space. A home acquired through a section 1031 exchange also needs special review; a five-year ownership restriction can apply. ^[1,2]

Early sales and family changes

A reduced exclusion may be available

If a qualifying employment change, health issue, or unforeseen circumstance is the primary reason for selling, a reduced exclusion may apply when you miss the ownership, residence, or prior-sale requirement. Choosing to buy a nicer home is not enough. ^[3]

The calculation generally uses the **shortest** of your ownership period within the five years before sale, your residence period within those same five years, or the time since a prior sale on which you used the exclusion. Divide that period by 24 months or 730 days. This reduces the dollar ceiling, not the percentage of gain that is automatically tax-free. We check the reason for sale and each spouse's qualifying period. ^[3]

Example. A single owner sells because of a qualifying job transfer after 12 months of ownership and residence, with no prior excluded sale shortening the period. The maximum is $\$250,000 \times 12/24 =$ **\$125,000**. If the eligible gain is \$90,000, all \$90,000 can be excluded. A couple could have \$250,000 for one fully qualifying spouse plus \$125,000 for the other, or \$375,000 total, if the facts support it. ^[3]

After the death of a spouse

A qualifying surviving spouse may keep the \$500,000 ceiling if the sale occurs **no later than two years after the spouse's death**, the survivor has not remarried at the time of sale, and the joint-exclusion conditions were met immediately before death. The usual eligibility rules still need review. After that window, a \$250,000 exclusion may remain available. ^[1]

Separately, an unremarried survivor may count the deceased spouse's ownership and residence time toward the tests. The basis may also change at death, reducing the gain before any exclusion is applied. ^[1,5]

An Arizona community property reminder

If the home is qualifying community property and at least half of its value is includible in the deceased spouse's gross estate, **both halves generally receive a basis adjustment to fair market value at death**. The adjustment can be upward or downward. Arizona residence alone does not prove the home is community property. Bring the deed, estate or trust documents, and a date-of-death valuation. ^[5]

Other situations to raise before closing

Divorce or separation: transfers and residence under a divorce or separation agreement may receive special treatment. **Military or certain government service:** qualifying extended duty may allow a suspension of the five-year testing period. **Inability to care for yourself:** special residence rules may apply. These situations require an individual review. ^[1,2]

Reporting and your document checklist

Send us the sale documents even if you believe the entire gain is excluded. Receiving Form 1099-S generally requires reporting the sale even when no gain is taxable. Reporting is also required when you have taxable gain. Form 8949 and Schedule D are commonly used; business portions may require other forms. ^[7]

Taxable long-term gain is generally subject to federal capital-gain rates, with special treatment for depreciation. Higher-income sellers may also owe the 3.8% net investment income tax on taxable gain; gain excluded under section 121 is not subject to that tax. State tax and estimated-payment requirements need separate review. ^[6,8]

What to send our office

- ☐ **Purchase and sale records:** closing disclosures or settlement statements, the purchase contract, sale contract, and Form 1099-S if issued.
- ☐ **Ownership and residence dates:** who owned the home, each person's ownership share, and when each spouse or owner moved in and out.
- ☐ **Cost and use records:** improvement invoices, credit or insurance adjustments, rental dates, home-office details, and depreciation schedules.
- ☐ **Other events:** prior home sales and exclusions, marriage or divorce dates, death and valuation records, and documents supporting an early-sale exception.

Keep your basis records throughout ownership and through the applicable tax-record retention period after sale. Contact us before closing so we can review the dates, estimate any tax, and discuss payments.

Sources and further reading

[1] Internal Revenue Code section 121 and Treasury Regulations 1.121-1 and 1.121-2. [Section 121](#) | [Residence rules](#) | [Joint owner rules](#)

[2] IRS Publication 523 Selling Your Home. irs.gov/publications/p523

[3] Treasury Regulation 1.121-3 Reduced maximum exclusion. [Reduced exclusion rules](#)

[4] IRS Publication 501 Filing Status. irs.gov/publications/p501

[5] IRS Topic 703 and Publication 551 Basis of Assets. [Basis overview](#) | [Basis and community property](#)

[6] IRS Topic 409 Capital gains and losses. irs.gov/taxtopics/tc409

[7] IRS Topic 701 Sale of your home. irs.gov/taxtopics/tc701

[8] IRS Net Investment Income Tax questions and answers. [Home sale treatment in question 11](#)

Source article: Bradford Tax Institute, October 2026, "2026 \$500,000 Home-Sale Exclusion: Must You Be Married?" This guide explains federal rules in effect as of October 23, 2026. Examples are illustrations; individual results depend on the facts.