

## The Principal Residence Gain Exclusion Break

The \$250,000 (\$500,000, if married) home sale gain exclusion break is one of the great tax-saving opportunities.

Unmarried homeowners can potentially exclude gains up to \$250,000, and married homeowners can potentially exclude up to \$500,000. You as the seller need not complete any special tax form to take advantage.

To take full advantage of the principal residence gain exclusion break, you must pass two tests: the ownership test and the use test.

- To pass the **ownership test**, you must have owned the home for at least two years out of the five-year period ending on the sale date.
- To pass the **use test**, you must have used the home as your principal residence for at least two years out of the five-year period ending on the sale date.

**Key point.** These two tests are completely independent. In other words, periods of ownership and use need not overlap.

If you're married and you and your spouse file your tax returns separately, you can potentially qualify for two separate \$250,000 exclusions.

If you're married and file jointly, you qualify for the \$500,000 joint-filer exclusion if

- either you pass or your spouse passes the ownership test for the property and
- both you and your spouse pass the use test.

When you file jointly, it's also possible for both you and your spouse to individually pass the ownership and use tests for two separate residences. In that case, you and your spouse would qualify for two separate \$250,000 exclusions.



Each spouse's eligibility for the \$250,000 exclusion is determined separately, as if you were unmarried. For this purpose, a spouse is considered to individually own a property for any period the property is actually owned by either spouse.

The other big qualification rule for the home sale gain exclusion privilege goes like this: the exclusion is generally available only when you have not excluded an earlier gain within the two-year period ending on the date of the later sale. In other words, you generally cannot recycle the gain exclusion privilege until two years have passed since you last used it.

You can claim the larger \$500,000 joint-filer exclusion only if neither you nor your spouse took advantage of it for an earlier sale within the two-year period. If one spouse claimed the exclusion within the two-year window but the other spouse did not, the exclusion is limited to \$250,000.

*Tax Reduction Letter*

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