CONNER ASH P.C.
Certified Public Accountants
and Business Consultants

12101 Woodcrest Executive Dr., Ste. 300
St. Louis, MO 63141-5047
Tel: 314-205-2510
Fax: 314-205-2505
www.connerash.com

An independent member of BKR International

EXCLUSION OF GAIN ON PRINCIPAL RESIDENCE

By: JIM GENTRY, CPA

Current Law:

A taxpayer can exclude from income up to $250,000 of gain ($500,000 for certain joint filers) from the sale of a home owned and used by the taxpayer as a principal residence for at least 2 of the 5 years before the sale. The exclusion doesn't apply if, during the 2-year period ending on the sale date, the exclusion applied to another homesale by the taxpayer.

Married taxpayers filing jointly for the year of sale may exclude up to $500,000 of homesale gain if (1) either spouse owned the home for at least 2 of the 5 years before the sale, (2) both spouses used the home as a principal residence for at least 2 of the 5 years before the sale, and (3) neither spouse is ineligible for a full exclusion because of the once-every-2-year limit. A surviving spouse can qualify for the up-to-$500,000 exclusion if the sale occurs not later than 2 years after the other spouse's death, if the requirements for the $500,000 exclusion were met immediately before the spouse's death, and the survivor hasn't remarried before the sale. Certain other restrictions may apply.

There are special rules in place when a property is used for both residential and business (or investment) purposes or the property was acquired in a like-kind exchange. Individuals subject to the expatriate tax rules can't claim the exclusion.

If all of the homesale gain is excluded, the transaction is not reported on the return. However, entries on Form 8949 are necessary if there is taxable gain on the home sale.

Tax Reform:

Congress is considering that, in order to exclude gain from the sale of a principal residence, a taxpayer would have to own and use as a home the residence for 5 out of the previous 8 years (as opposed to 2 out of 5 years under current law), effective for sales and exchanges after Dec. 31, 2017. In addition, the exclusion could only be used once every 5 years, and it would be phased out at higher income levels. Stay tuned.

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If you have questions about this or any other business or tax issue, please contact your Account Manager or Jim Gentry, CPA, at (314) 205-2510 or via email at jgentry@connerash.com.