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Selling Your Home

For use in preparing
2006 Returns

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What's New

Gulf Opportunity Zone Act of 2005 (Act). This Act provides tax relief for persons affected by Hurricanes Katrina, Rita, and Wilma. Under this Act, the rules for recapture of a federal mortgage subsidy have changed if you received a qualified home improvement loan (QHIL) funded by a qualified mortgage bond that is a qualified Gulf Opportunity Zone Bond or a QHIL for an owner-occupied home in the Gulf Opportunity Zone (GO Zone), Rita GO Zone, or Wilma GO Zone. For more information, see *Recapturing (Paying Back) a Federal Mortgage Subsidy,* later.

New credits affecting the basis of a home. If you claim the nonbusiness energy property credit or the residential energy efficient property credit in 2006, you must decrease the basis of your home by the amount of the credit claimed. See *Adjusted Basis,* later. For more information about

these credits, see also Form 5695, Residential Energy Credits.

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 2006, 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.

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.

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You can email us at **taxforms@irs.gov*. (The asterisk must be included in the address.) Please put “Publications Comment” on the subject line. Although we cannot respond individually to each email, we do appreciate your feedback and will consider your comments as we revise our tax products.

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Tax questions. If you have a tax question, visit *www.irs.gov* or call 1-800-829-1040. We cannot answer tax questions sent to either of the above addresses.

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
- ❏ **1099-S** Proceeds From Real Estate Transactions
- ❏ **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.

Main Home

This section explains the term "main home." Usually, the home you live in most of the time is your main home and can be a:

- House,
- Houseboat,
- Mobile home,
- Cooperative apartment, or
- Condominium.

To exclude gain under the rules in this publication, you generally must have owned and lived in the property as your main home for at least 2 years during the 5-year period ending on the date of sale.

Land. If you sell the land on which your main home is located, but not the house itself, you cannot exclude any gain you have from the sale of the land.

Example. On March 4, 2006, you sell the land on which your main home is located. You buy another piece of land and move your house to it. This sale is not considered a sale of your main home, and you cannot exclude any gain on the sale of the land.

Vacant land. The sale of vacant land is not a sale of your main home unless:

- The vacant land is adjacent to land containing your home,
- You owned and used the vacant land as part of your main home,
- The sale of your home satisfies the requirements for exclusion and occurs within 2 years before or 2 years after the date of the sale of the vacant land, and
- The other requirements for excluding gain from the sale of the vacant land have been satisfied.

If these requirements are met, the sale of the home and the sale of the vacant land are treated as one sale and only one maximum exclusion can be applied to any gain. See *Excluding the Gain,* later.

More than one home. If you have more than one home, you can exclude gain only from the sale of your main home. You must include in income gain from the sale of any other home. If you have two homes and live in both of them, your main home is ordinarily the one you live in most of the time.

Example 1. You own and live in a house in the city. You also own a beach house, which you use during the summer months. The house in the city is your main home.

Example 2. You own a house, but you live in another house that you rent. The rented house is your main home.

Factors used to determine main home. In addition to the amount of time you live in each home, other factors are relevant in determining which home is your main home. Those factors include the following.

1. Your place of employment.
2. The location of your family members' main home.
3. Your mailing address for bills and correspondence.
4. The address listed on your:
   a. Federal and state tax returns,
   b. Driver's license,
   c. Car registration, and
   d. Voter registration card.
5. The location of the banks you use.
6. The location of recreational clubs and religious organizations you are a member of.

Property used partly as your main home. If you use only part of the property as your main home, the rules discussed in this publication apply only to the gain or loss on the sale of that part of the property. For details, see *Business Use or Rental of Home,* later.

Figuring Gain or Loss

To figure the gain or loss on the sale of your main home, you must know the selling price, the amount realized, and the adjusted basis. Subtract the adjusted basis from the amount realized to get your gain or loss.

Selling price
– Selling expenses
Amount realized

Amount realized
– Adjusted basis
Gain or loss

Selling Price

The selling price is the total amount you receive for your home. It includes money, all notes, mortgages, or other debts assumed by the buyer as part of the sale, and the fair market value of any other property or any services you receive.

Personal property. The selling price of your home does not include amounts you received for personal property sold with your home. Personal property is property that is not a permanent part of the home. Examples are furniture, draperies, and lawn equipment. Separately stated amounts you received for these items should not be shown on Form 1099-S (discussed later). Any gains from sales of personal property must be included in your income.

Payment by employer. You may have to sell your home because of a job transfer. If your employer pays you for a loss on the sale or for your selling expenses, do not include the payment as part of the selling price. Your employer will include it as wages in box 1 of your Form W-2 and you will include it on Form 1040, line 7, or on Form 1040NR, line 8.

Option to buy. If you grant an option to buy your home and the option is exercised, add the amount you receive for the option to the selling price of your home. If the option is not exercised, you must report the amount as ordinary income in the year the option expires. Report this amount on Form 1040, line 21, or on Form 1040NR, line 21.

Form 1099-S. If you received Form 1099-S, Proceeds From Real Estate Transactions, box 2 (gross proceeds) should show the total amount you received for your home.

However, box 2 will not include the fair market value of any property other than cash or notes, or any services, you received or will receive. Instead, box 4 will be checked to indicate your receipt or expected receipt of these items.

If you can exclude the entire gain, the person responsible for closing the sale generally will not have to report it on Form 1099-S. If you do not receive Form 1099-S, use sale documents and other records to figure the total amount you received for your home.

Amount Realized

The amount realized is the selling price minus selling expenses.

Selling expenses. Selling expenses include:

- Commissions,
- Advertising fees,
- Legal fees, and
- Loan charges paid by the seller, such as loan placement fees or "points."

Adjusted Basis

While you owned your home, you may have made adjustments (increases or decreases) to the basis. This adjusted basis must be determined before you can figure gain or loss on the sale of your home. For information on how to figure your home's adjusted basis, see *Determining Basis* later.

Amount of Gain or Loss

To figure the amount of gain or loss, compare the amount realized to the adjusted basis.

Gain on sale. If the amount realized is more than the adjusted basis, the difference is a gain and, except for any part you can exclude, generally is taxable.

Loss on sale. If the amount realized is less than the adjusted basis, the difference is a loss. A loss on the sale of your main home cannot be deducted.

Jointly owned home. If you and your spouse sell your jointly owned home and file a joint return, you figure your gain or loss as one taxpayer.

Separate returns. If you file separate returns, each of you must figure your own gain or loss according to your ownership interest in the home. Your ownership interest is determined by state law.

Joint owners not married. If you and a joint owner other than your spouse sell your jointly owned home, each of you must figure your own gain or loss according to your ownership interest in the home. Each of you applies the rules discussed in this publication on an individual basis.

Other Dispositions

The following rules apply to foreclosures and repossessions, abandonments, trades, and transfers to a spouse.

Foreclosure or repossession. If your home was foreclosed on or repossessed, you have a sale.

You figure the gain or loss from the sale in generally the same way as gain or loss from any sale. But the selling price of your home used to figure the amount of your gain or loss depends, in part, on whether you were personally

liable for repaying the debt secured by the home, as shown in the following chart.

IF you were...	THEN your selling price includes...
not personally liable for the debt	the full amount of debt canceled by the foreclosure or repossession.
personally liable for the debt	the amount of canceled debt up to the home's fair market value. You may also have ordinary income, as explained next.

Ordinary income. If you were personally liable for the canceled debt, you may have ordinary income in addition to any gain or loss. If the canceled debt is more than the home's fair market value, you have ordinary income equal to the difference. Report that income on Form 1040, line 21, or on Form 1040NR, line 21. However, the income from cancellation of debt is not taxed to you if the cancellation is intended as a gift, or if you are insolvent or bankrupt. For more information on insolvency or bankruptcy, see Publication 908, Bankruptcy Tax Guide.

Form 1099-A and Form 1099-C. Generally, you will receive Form 1099-A, Acquisition or Abandonment of Secured Property, from your lender. This form will have the information you need to determine the amount of your gain or loss and any ordinary income from cancellation of debt. If your debt is canceled, you may receive Form 1099-C, Cancellation of Debt.

More information. If part of your home is used for business or rental purposes, see *Foreclosures and Repossessions* in chapter 1 of Publication 544 for more information. Publication 544 has examples of how to figure gain or loss on a foreclosure or repossession.

Abandonment. If you abandon your home, you may have ordinary income. If the abandoned home secures a debt for which you are personally liable and the debt is canceled, you have ordinary income equal to the amount of canceled debt.

If the home is secured by a loan and the lender knows the home has been abandoned, the lender should send you Form 1099-A or Form 1099-C. See *Foreclosure or repossession*, earlier, for information about those forms. If the home is later foreclosed on or repossessed, gain or loss is figured as explained in that discussion.

Trading homes. If you trade your old home for another home, treat the trade as a sale and a purchase.

Example. You owned and lived in a home with an adjusted basis of $41,000. A real estate dealer accepted your old home as a trade-in and allowed you $50,000 toward a new home priced at $80,000. This is treated as a sale of your old home for $50,000 with a gain of $9,000 ($50,000 – $41,000).

If the dealer had allowed you $27,000 and assumed your unpaid mortgage of $23,000 on your old home, your sales price would still be $50,000 (the $27,000 trade-in allowed plus the $23,000 mortgage assumed).

Transfer to spouse. If you transfer your home to your spouse, or to your former spouse incident to your divorce, you generally have no gain or loss (unless the *Exception*, discussed next, applies). This is true even if you receive cash or other consideration for the home. Therefore, the rules explained in this publication do not apply.

If you owned your home jointly with your spouse and transfer your interest in the home to your spouse, or to your former spouse incident to your divorce, the same rule applies. You have no gain or loss.

Exception. These transfer rules do not apply if your spouse or former spouse is a nonresident alien. In that case, you generally will have a gain or loss.

More information. See *Property Settlements* in Publication 504, Divorced or Separated Individuals, if you need more information.

Determining Basis

You need to know your basis in your home to determine any gain or loss when you sell it. Your basis in your home is determined by how you got the home. Your basis is its cost if you bought it or built it. If you got it in some other way (inheritance, gift, etc.), its basis is either its fair market value when you got it or the adjusted basis of the person you got it from.

While you owned your home, you may have made adjustments (increases or decreases) to your home's basis. The result of these adjustments is your home's adjusted basis, which is used to figure gain or loss on the sale of your home.

To figure your adjusted basis, you can use *Worksheet 1*, shown later. Filled-in examples of that worksheet are included in the *Comprehensive Examples,* later.

Cost As Basis

The cost of property is the amount you pay for it in cash, debt obligations, other property, or services.

Purchase. If you buy your home, your basis is its cost to you. This includes the purchase price and certain settlement or closing costs. Generally, your purchase price includes your down payment and any debt, such as a first or second mortgage or notes you gave the seller in payment for the home. If you build, or contract to build, a new home, your purchase price can include costs of construction, as discussed later.

Seller-paid points. If the person who sold you your home paid points on your loan, you may have to reduce your home's basis by the amount of the points as shown in the following chart.

IF you bought your home...	THEN reduce your home's basis by the seller-paid points...
after 1990 but before April 4, 1994	only if you deducted them as home mortgage interest in the year paid.
after April 3, 1994	even if you did not deduct them.

If you must reduce your basis by seller-paid points and you use *Worksheet 1* to figure your adjusted basis, enter the seller-paid points on line 2 of the worksheet (unless you used the seller-paid points to reduce the amount on line 1).

Settlement fees or closing costs. When you bought your home, you may have paid settlement fees or closing costs in addition to the contract price of the property. You can include in your basis some of the settlement fees and closing costs you paid for buying the home. You cannot include in your basis the fees and costs for getting a mortgage loan. A fee paid for buying the home is any fee you would have had to pay even if you paid cash for the home (that is, without the need for financing).

Settlement fees do not include amounts placed in escrow for the future payment of items such as taxes and insurance.

Some of the settlement fees or closing costs that you can include in your basis are:

1. Abstract fees (abstract of title fees),
2. Charges for installing utility services,
3. Legal fees (including fees for the title search and preparing the sales contract and deed),
4. Recording fees,
5. Survey fees,
6. Transfer or stamp taxes,
7. Owner's title insurance, and
8. Any amounts the seller owes that you agree to pay, such as:
   a. Certain real estate taxes (discussed later),
   b. Back interest,
   c. Recording or mortgage fees,
   d. Charges for improvements or repairs, and
   e. Sales commissions.

Some settlement fees and closing costs you cannot include in your basis are:

1. Fire insurance premiums,
2. Rent for occupancy of the house before closing,
3. Charges for utilities or other services related to occupancy of the house before closing,
4. Any fee or cost that you deducted as a moving expense (allowed for certain fees and costs before 1994),
5. Charges connected with getting a mortgage loan, such as:
   a. Mortgage insurance premiums (including funding fees connected with loans guaranteed by the Department of Veterans Affairs),
   b. Loan assumption fees,
   c. Cost of a credit report,
   d. Fee for an appraisal required by a lender, and
6. Fees for refinancing a mortgage.

Real estate taxes. Real estate taxes for the year you bought your home may affect your basis, as shown in the following chart.

<table>
<tr><th>IF...</th><th>AND...</th><th>THEN the taxes...</th></tr>
<tr><td rowspan="2">you pay taxes that the seller owed on the home (the taxes up to the date of sale)</td><td>the seller does not reimburse you</td><td>are added to the basis of your home.</td></tr>
<tr><td>the seller reimburses you</td><td>do not affect the basis of your home.</td></tr>
<tr><td rowspan="2">the seller paid taxes for you (the taxes beginning on the date of sale)</td><td>you do not reimburse the seller</td><td>are subtracted from the basis of your home.</td></tr>
<tr><td>you reimburse the seller</td><td>do not affect the basis of your home.</td></tr>
</table>

Construction. If you contracted to have your house built on land you own, your basis is:

1. The cost of the land, plus
2. The amount it cost you to complete the house, including:
   a. The cost of labor and materials,
   b. Any amounts paid to a contractor,
   c. Any architect's fees,
   d. Building permit charges,
   e. Utility meter and connection charges, and
   f. Legal fees directly connected with building the house.

Your cost includes your down payment and any debt such as a first or second mortgage or notes you gave the seller or builder. It also includes certain settlement or closing costs. You may have to reduce your basis by points the seller paid for you. For more information, see *Seller-paid points* and *Settlement fees or closing costs,* earlier.

Built by you. If you built all or part of your house yourself, its basis is the total amount it cost you to complete it. Do not include in the cost of the house:

- The value of your own labor, or
- The value of any other labor you did not pay for.

Temporary housing. If a builder gave you temporary housing while your home was being finished, you must reduce your basis by the part of the contract price that was for the temporary housing. To figure the amount of the reduction, multiply the contract price by a fraction. The numerator is the value of the temporary housing, and the denominator is the sum of the value of the temporary housing plus the value of the home.

Cooperative apartment. If you are a tenant-stockholder in a cooperative housing corporation, your basis in the cooperative apartment used as your home is usually the cost of your stock in the corporation. This may include your share of a mortgage on the apartment building.

Condominium. To determine your basis in a condominium apartment used as your home, use the same rules as for any other home.

Basis Other Than Cost

You must use a basis other than cost, such as fair market value, if you got your home as a gift, from your spouse, as an inheritance, or in a trade. If you got your home in any of these ways, see the following discussion that applies to you. If you want to figure your adjusted basis using *Worksheet 1*, see the *Worksheet 1 Instructions,* later, for help.

Fair market value. Fair market value is the price at which property would change hands between a willing buyer and a willing seller, neither having to buy or sell, and both having reasonable knowledge of all necessary facts. Sales of similar property, on or about the same date, may be helpful in figuring the fair market value of the property.

Home received as gift. Use the following chart to find the basis of a home you received as a gift.

IF the donor's adjusted basis at the time of the gift was...	**THEN your basis is...**
more than the fair market value of the home at that time	the same as the donor's adjusted basis at the time of the gift. *Exception:* If using the donor's adjusted basis results in a loss when you sell the home, you must use the fair market value of the home at the time of the gift as your basis. If using the fair market value results in a gain, you have neither gain nor loss.
equal to or less than the fair market value at the time, and you received the gift before 1977	the smaller of the: • donor's adjusted basis, plus any federal gift tax paid on the gift, or • the home's fair market value at the time of the gift.
equal to or less than the fair market value at the time, and you received the gift after 1976	the same as the donor's adjusted basis, plus the part of any federal gift tax paid that is due to the net increase in value of the home (explained next).

Part of federal gift tax due to net increase in value. Figure the part of the federal gift tax paid that is due to the net increase in value of the home by multiplying the total federal gift tax paid by a fraction. The numerator of the fraction is the net increase in the value of the home, and the denominator is the value of the home for gift tax purposes after reduction by any annual exclusion and marital or charitable deduction that applies to the gift. The net increase in the value of the home is its fair market value minus the donor's adjusted basis.

Home received from spouse. If you received your home from your spouse or from your former spouse incident to your divorce, your basis in the home depends on the date of the transfer.

Transfers after July 18, 1984. If you received the home after July 18, 1984, there was no gain or loss on the transfer. Your basis in this home is generally the same as your spouse's (or former spouse's) adjusted basis just before you received it. This rule applies even if you received the home in exchange for cash, the release of marital rights, the assumption of liabilities, or other consideration.

If you owned a home jointly with your spouse and your spouse transferred his or her interest in the home to you, your basis in the half interest received from your spouse is generally the same as your spouse's adjusted basis just before the transfer. This also applies if your former spouse transferred his or her interest in the home to you incident to your divorce. Your basis in the half interest you already owned does not change. Your new basis in the home is the total of these two amounts.

Transfers before July 19, 1984. If you received your home before July 19, 1984, in exchange for your release of marital rights, your basis in the home is generally its fair market value at the time you received it.

More information. For more information on property received from a spouse or former spouse, see *Property Settlements* in Publication 504.

Home received as inheritance. If you inherited your home, your basis is its fair market value on the date of the decedent's death or the later alternate valuation date if that date was chosen by the personal representative for the estate. If an estate tax return was filed, the value listed for the property generally is your basis. If a federal estate tax return did not have to be filed, your basis in the home is the same as its appraised value at the date of death for purposes of state inheritance or transmission taxes.

Surviving spouse. If you are a surviving spouse and you owned your home jointly, your basis in the home will change. The new basis for the half interest that your spouse owned will be one-half of the fair market value on the date of death (or alternate valuation date). The basis in your half will remain one-half of the adjusted basis determined previously. Your new basis in the home is the total of these two amounts.

Example. Your jointly owned home had an adjusted basis of $50,000 on the date of your spouse's death, and the fair market value on that date was $100,000. Your new basis in the home is $75,000 ($25,000 for one-half of the adjusted basis plus $50,000 for one-half of the fair market value).

Community property. In community property states (Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin), each spouse is usually considered to own half of the community property. When either spouse dies, the fair market value of the community property generally becomes the basis of the entire property, including the part belonging to the surviving spouse. For this to apply, at least half the value of the community property interest must be includible in the decedent's gross estate, whether or not the estate must file a return.

For more information about community property, see Publication 555, Community Property.

Home received as trade. If you acquired your home as a trade for other property, the basis of your home is generally the fair market value of the other property at the time of the trade. If you traded one home for another, you have made a sale and purchase. In that case, you may have realized a gain. See *Trading homes,* earlier, for an example of figuring the gain.

More information. For more information about basis, get Publication 551.

Adjusted Basis

Adjusted basis is your basis increased or decreased by certain amounts.

To figure your adjusted basis, you can use *Worksheet 1*, shown later. Filled-in examples of that worksheet are included in *Comprehensive Examples,* later.

Increases to basis. These include any:

- Additions and other improvements that have a useful life of more than 1 year,
- Special assessments for local improvements, and
- Amounts you spent after a casualty to restore damaged property.

Decreases to basis. These include any:

- Gain you postponed from the sale of a previous home before May 7, 1997,
- Deductible casualty losses,
- Insurance payments you received or expect to receive for casualty losses,
- Payments you received for granting an easement or right-of-way,
- Depreciation allowed or allowable if you used your home for business or rental purposes,
- Residential energy credit (generally allowed from 1977 through 1987) claimed for the cost of energy improvements that you added to the basis of your home,
- Nonbusiness energy property credit (allowed beginning in 2006) claimed for making certain energy saving improvements that you added to the basis of your home,
- Residential energy efficient property credit (allowed beginning in 2006) claimed for making certain energy saving improvements that you added to the basis of your home,
- Adoption credit you claimed for improvements added to the basis of your home,
- Nontaxable payments from an adoption assistance program of your employer that you used for improvements you added to the basis of your home,
- Energy conservation subsidy excluded from your gross income because you received it (directly or indirectly) from a public utility after 1992 to buy or install any energy conservation measure. An energy conservation measure is an installation or modification that is primarily designed either to reduce consumption of electricity or natural gas or to improve the management of energy demand for a home, and
- District of Columbia first-time homebuyer credit (allowed on the purchase of a principal residence in the District of Columbia from August 5, 1997, through December 31, 2005).

At the time this publication went to print, Congress was considering legislation that would extend the District of Columbia first-time homebuyer credit that expired for homes purchased after 2005. To find out if this legislation was enacted, and for more details, go to www.irs.gov*, click on* More Forms and Publications*, and then on* What's Hot in forms and publications*, or see Publication 553, Highlights of 2006 Tax Changes.*

Improvements. These add to the value of your home, prolong its useful life, or adapt it to new uses. You add the cost of additions and other improvements to the basis of your property.

Examples. Putting a recreation room or another bathroom in your unfinished basement, putting up a new fence, putting in new plumbing or wiring, putting on a new roof, or paving your unpaved driveway are improvements. An addition to your house, such as a new deck, a sunroom, or a new garage, is also an improvement.

The following chart lists some other examples of improvements.

Additions Bedroom Bathroom Deck Garage Porch Patio	**Heating & Air Conditioning** Heating system Central air conditioning Furnace Duct work Central humidifier Filtration system
Lawn & Grounds Landscaping Driveway Walkway Fence Retaining wall Sprinkler system Swimming pool	**Plumbing** Septic system Water heater Soft water system Filtration system
Miscellaneous Storm windows, doors New roof Central vacuum Wiring upgrades Satellite dish Security system	**Interior Improvements** Built-in appliances Kitchen modernization Flooring Wall-to-wall carpeting
	Insulation Attic Walls Floors Pipes and duct work

Improvements no longer part of home. Your home's adjusted basis does not include the cost of any improvements that are replaced and are no longer part of the home.

Example. You put wall-to-wall carpeting in your home 15 years ago. Later, you replaced that carpeting with new wall-to-wall carpeting. The cost of the old carpeting you replaced is no longer part of your home's adjusted basis.

Repairs. These maintain your home in good condition but do not add to its value or prolong its life. You do not add their cost to the basis of your property.

Examples. Repainting your house inside or outside, fixing your gutters or floors, repairing leaks or plastering, and replacing broken window panes are examples of repairs.

Exception. The entire job is considered an improvement if items that would otherwise be considered repairs are done as part of an extensive remodeling or restoration of your home.

Recordkeeping. You should keep records to prove your home's adjusted basis. Ordinarily, you must keep records for 3 years after the due date for filing your return for the tax year in which you sold your home. But if you sold a home before May 7, 1997, and postponed tax on any gain, the basis of that home affects the basis of the new home you bought. Keep records proving the basis of both homes as long as they are needed for tax purposes.

The records you should keep include:

- Proof of the home's purchase price and purchase expenses,
- Receipts and other records for all improvements, additions, and other items that affect the home's adjusted basis,
- Any worksheets you used to figure the adjusted basis of the home you sold, the gain or loss on the sale, the exclusion, and the taxable gain,
- Any Form 2119, Sale of Your Home, that you filed to postpone gain from the sale of a previous home before May 7, 1997, and
- Any worksheets you used to prepare Form 2119, such as the *Adjusted Basis of Home Sold Worksheet* or the *Capital Improvements Worksheet* from the Form 2119 instructions.

Excluding the Gain

You may qualify to exclude from your income all or part of any gain from the sale of your main home. This means that, if you qualify, you will not have to pay tax on the gain up to the limit described under *Maximum Exclusion*, next. To qualify, you must meet the ownership and use tests described later.

You can choose not to take the exclusion by including the gain from the sale in your gross income on your tax return for the year of the sale. This choice can be made (or revoked) at any time before the expiration of a 3-year period beginning on the due date of your return (not including extensions) for the year of the sale.

You can use *Worksheet 2*, shown later, to figure the amount of your exclusion and your taxable gain, if any.

Worksheet 1 Instructions.

If you use *Worksheet 1* to figure the adjusted basis of your home, follow these instructions.

IF...		THEN...
you inherited your home	1	skip lines 1–4 of the worksheet.
	2	find your basis using the rules under *Home received as inheritance*. Enter this amount on line 5 of the worksheet.
	3	fill out the rest of the worksheet.
you received your home as a gift	1	read *Home received as gift* and enter on lines 1 and 3 of the worksheet either the donor's adjusted basis or the home's fair market value at the time of the gift, whichever is appropriate.
	2	if you can add any federal gift tax to your basis, enter that amount on line 5 of the worksheet.
	3	fill out the rest of the worksheet.
you received your home as a trade for other property	1	enter on line 1 of the worksheet the fair market value of the other property. (But if you received your home as a trade for your previous home before May 7, 1997, and had a gain on the trade that you postponed using Form 2119, enter on line 1 of the worksheet the adjusted basis of the new home from that Form 2119.)
	2	fill out the rest of the worksheet.
you built your home	1	add the purchase price of the land and the cost of building the home. See *Construction*. Enter that total on line 1 of the worksheet. (However, if you filed a Form 2119 to postpone gain on the sale of a previous home before May 7, 1997, enter on line 1 of the worksheet the adjusted basis of the new home from that Form 2119.)
	2	fill out the rest of the worksheet.
you received your home from your spouse after July 18, 1984	1	skip lines 1–4 of the worksheet.
	2	enter on line 5 of the worksheet your spouse's adjusted basis in the home just before you received it.
	3	fill out the rest of the worksheet, making adjustments to basis only for events after the transfer.
you owned a home jointly with your spouse, who transferred his or her interest in the home to you after July 18, 1984		fill out one worksheet, including adjustments to basis for events both before and after the transfer.
you received your home from your spouse before July 19, 1984	1	skip lines 1–4 of the worksheet.
	2	enter on line 5 of the worksheet the home's fair market value at the time you received it.
	3	fill out the rest of the worksheet, making adjustments to basis only for events after the transfer.
you owned a home jointly with your spouse, who transferred his or her interest in the home to you before July 19, 1984	1	fill out a worksheet, lines 1–13, making adjustments to basis only for events before the transfer.
	2	multiply the amount on line 13 of that worksheet by one-half (0.5) to get the adjusted basis of your half-interest at the time of the transfer.
	3	multiply the fair market value of the home at the time of the transfer by one-half (0.5). Generally, this is the basis of the half-interest that your spouse owned.
	4	add the amounts from steps 2 and 3 and enter the total on line 5 of a second worksheet.
	5	complete the rest of the second worksheet, making adjustments to basis only for events after the transfer.

Worksheet 1 Instructions. *(Continued)*

IF...		THEN...
you owned your home jointly with your spouse who died	1	fill out a worksheet, lines 1 – 13, making adjustments to basis only for events before your spouse's death.
	2	multiply the amount on line 13 of that worksheet by one-half (0.5) to get the adjusted basis of your half-interest on the date of death.
	3	use the rules under *Surviving spouse* to find the basis for the half-interest owned by your spouse.
	4	add the amounts from steps 2 and 3 and enter the total on line 5 of a second worksheet.
	5	complete the rest of the second worksheet, making adjustments to basis only for events after your spouse's death.
you owned your home jointly with your spouse who died, and your permanent home is in a community property state	1	skip lines 1 – 4 of the worksheet.
	2	enter the amount of your basis on line 5 of the worksheet. Generally, this is the fair market value of the home at the time of death. (But see *Community property* for special rules.)
	3	fill out the rest of the worksheet, making adjustments to basis only for events after your spouse's death.
your home was ever damaged as a result of a casualty	1	on line 8 of the worksheet, enter any amounts you spent to restore the home to its condition before the casualty.
	2	on line 11 enter: any insurance reimbursements you received (or expect to receive) for the loss, and any deductible casualty losses not covered by insurance.
none of these items apply		fill out the entire worksheet.

Worksheet 1. **Adjusted Basis of Home Sold**

Caution: *See the* Worksheet 1 Instructions *before you use this worksheet.*

1.	Enter the purchase price of the home sold. (If you filed Form 2119 when you originally acquired that home to postpone gain on the sale of a previous home before May 7, 1997, enter the adjusted basis of the new home from that Form 2119.)		**1.** ______
2.	Seller-paid points for home bought after 1990. (See *Seller-paid points.*) Do not include any seller-paid points you already subtracted to arrive at the amount entered on line 1		**2.** ______
3.	Subtract line 2 from line 1		**3.** ______
4.	Settlement fees or closing costs. (See *Settlement fees or closing costs.*) If line 1 includes the adjusted basis of the new home from Form 2119, go to line 6.		
a.	Abstract and recording fees	**4a.** ______	
b.	Legal fees (including fees for title search and preparing documents)	**4b.** ______	
c.	Survey fees	**4c.** ______	
d.	Title insurance	**4d.** ______	
e.	Transfer or stamp taxes	**4e.** ______	
f.	Amounts that the seller owed that you agreed to pay (back taxes or interest, recording or mortgage fees, and sales commissions)	**4f.** ______	
g.	Other	**4g.** ______	
5.	Add lines 4a through 4g		**5.** ______
6.	Cost of additions and improvements. Do not include any additions and improvements included on line 1		**6.** ______
7.	Special tax assessments paid for local improvements, such as streets and sidewalks		**7.** ______
8.	Other increases to basis		**8.** ______
9.	Add lines 3, 5, 6, 7, and 8		**9.** ______
10.	Depreciation allowed or allowable, related to the business use or rental of the home	**10.** ______	
11.	Other decreases to basis (See *Decreases to basis.*)	**11.** ______	
12.	Add lines 10 and 11		**12.** ______
13.	**Adjusted basis of home sold**. Subtract line 12 from line 9. Enter here and on *Worksheet 2*, line 4		**13.** ______

Worksheet 2. **Gain or (Loss), Exclusion, and Taxable Gain on Sale of Home**

Keep for Your Records

Part 1 – Gain or (Loss) on Sale

1.	Selling price of home	**1.**	
2.	Selling expenses (including commissions, advertising and legal fees, and seller-paid loan charges)	**2.**	
3.	Subtract line 2 from line 1. This is the amount realized	**3.**	
4.	Adjusted basis of home sold (from *Worksheet 1*, line 13)	**4.**	
5.	Subtract line 4 from line 3. This is the **gain or (loss)** on the sale. If this is a loss, stop here	**5.**	

Part 2 – Exclusion and Taxable Gain

6.	Enter any depreciation allowed or allowable on the property for periods after May 6, 1997. If none, enter zero	**6.**	
7.	Subtract line 6 from line 5. (If the result is less than zero, enter zero.)	**7.**	
8.	If you qualify to exclude gain on the sale, enter your maximum exclusion. (See *Maximum Exclusion.*) If you do not qualify to exclude gain, enter -0-	**8.**	
9.	Enter the smaller of line 7 or line 8. This is your **exclusion**	**9.**	
10.	Subtract line 9 from line 5. This is your **taxable gain.** Report it as described under *Reporting the Sale*. If the amount on this line is zero, do not report the sale or exclusion on your tax return. **If the amount on line 6 is more than zero, complete line 11**	**10.**	
11.	Enter the smaller of line 6 or line 10. Enter this amount on line 12 of the *Unrecaptured Section 1250 Gain Worksheet* in the instructions for Schedule D (Form 1040)	**11.**	

Maximum Exclusion

You can exclude up to $250,000 of the gain on the sale of your main home if all of the following are true.

- You meet the ownership test.
- You meet the use test.
- During the 2-year period ending on the date of the sale, you did not exclude gain from the sale of another home.

If you and another person owned the home jointly but file separate returns, each of you can exclude up to $250,000 of gain from the sale of your interest in the home if each of you meets the three conditions just listed.

You can exclude up to $500,000 of the gain on the sale of your main home if all of the following are true.

- You are married and file a joint return for the year.
- Either you or your spouse meets the ownership test.
- Both you and your spouse meet the use test.
- During the 2-year period ending on the date of the sale, neither you nor your spouse excluded gain from the sale of another home.

If either spouse does not satisfy all these requirements, the maximum exclusion that can be claimed by the couple is the total of the maximum exclusions that each spouse would qualify for if not married and the amounts were figured separately. For this purpose, each spouse is treated as owning the property during the period that either spouse owned the property.

Ownership and Use Tests

To claim the exclusion, you must meet the ownership and use tests. This means that during the 5-year period ending on the date of the sale, you must have:

- Owned the home for at least 2 years (the ownership test), and
- Lived in the home as your main home for at least 2 years (the use test).

Exception. If you owned and lived in the property as your main home for less than 2 years, you can still claim an exclusion in some cases. The maximum amount you can exclude will be reduced. See *Reduced Maximum Exclusion,* later.

Example 1—home owned and occupied for 3 years. Amanda bought and moved into her main home in September 2003. She sold the home at a gain on September 15, 2006. During the 5-year period ending on the date of sale (September 16, 2001 – September 15, 2006), she owned and lived in the home for 3 years. She meets the ownership and use tests.

Example 2—met ownership test but not use test. Dan bought a home in 2000. After living in it for 6 months, he moved out. He never lived in the home again and sold it at a gain on June 28, 2006. He owned the home during the entire 5-year period ending on the date of sale (June 29, 2001 – June 28, 2006). However, he did not live in it for the required 2 years. He meets the ownership test but not the use test. He cannot exclude any part of his gain on the

sale, unless he qualified for a reduced maximum exclusion (explained later).

Period of Ownership and Use

The required 2 years of ownership and use during the 5-year period ending on the date of the sale do not have to be continuous.

You meet the tests if you can show that you owned and lived in the property as your main home for either 24 full months or 730 days (365 × 2) during the 5-year period ending on the date of sale.

Example. Susan bought and moved into a house in July 2002. She lived there for 13 months and then moved in with a friend. She moved back into her own house in 2005 and lived there for 12 months until she sold it in July 2006. Susan meets the ownership and use tests because, during the 5-year period ending on the date of sale, she owned the house for 4 years and lived in it for a total of 25 months.

Temporary absence. Short temporary absences for vacations or other seasonal absences, even if you rent out the property during the absences, are counted as periods of use. The following examples assume that the reduced maximum exclusion (discussed later) does not apply to the sales.

Example 1. David Johnson, who is single, bought and moved into his home on February 1, 2004. Each year during 2004 and 2005, David left his home for a 2-month summer vacation. David sold the house on March 1, 2006. Although the total time David used his home is less than 2 years (21 months), he may exclude any gain up to $250,000. The 2-month vacations are short temporary absences and are counted as periods of use in determining whether David used the home for the required 2 years.

Example 2. Professor Paul Beard, who is single, bought and moved into a house on August 28, 2003. He lived in it as his main home continuously until January 5, 2005, when he went abroad for a 1-year sabbatical leave. On February 6, 2006, 1 month after returning from the leave, Paul sold the house at a gain. Because his leave was not a short temporary absence, he cannot include the period of leave to meet the 2-year use test. He cannot exclude any part of his gain because he did not use the residence for the required 2 years.

Ownership and use tests met at different times. You can meet the ownership and use tests during different 2-year periods. However, you must meet both tests during the 5-year period ending on the date of the sale.

Example. In 1997, Helen Jones lived in a rented apartment. The apartment building was later changed to a condominium, and she bought her apartment on December 3, 2003. In 2004, Helen became ill and on April 14 of that year she moved to her daughter's home. On July 12, 2006, while still living in her daughter's home, she sold her apartment.

Helen can exclude gain on the sale of her apartment because she met the ownership and use tests during the 5-year period from July 13, 2001, to July 12, 2006, the date she sold the apartment. She owned her apartment from December 3, 2003, to July 12, 2006 (more than 2 years). She lived in the apartment from July 13, 2001 (the beginning of the 5-year period), to April 14, 2004 (more than 2 years).

The time Helen lived in her daughter's home during the 5-year period can be counted as a period of ownership, and the time she lived in her rented apartment during the 5-year period can be counted as a period of use.

Cooperative apartment. If you sold stock in a cooperative housing corporation, the ownership and use tests are met if, during the 5-year period ending on the date of sale, you:

- Owned the stock for at least 2 years, and
- Lived in the house or apartment that the stock entitles you to occupy as your main home for at least 2 years.

Members of the uniformed services or Foreign Service. You can choose to have the 5-year test period for ownership and use suspended during any period you or your spouse serve on "qualified official extended duty" as a member of the uniformed services or Foreign Service of the United States. This means that you may be able to meet the 2-year use test even if, because of your service, you did not actually live in your home for at least the required 2 years during the 5-year period ending on the date of sale.

If this helps you qualify to exclude gain, you can choose to have the 5-year test period suspended by filing a return for the year of sale that does not include the gain.

Example. David bought and moved into a home in 1998. He lived in it as his main home for 2½ years. For the next 6 years, he did not live in it because he was on qualified official extended duty with the Army. He then sold the home at a gain in 2006. To meet the use test, David chooses to suspend the 5-year test period for the 6 years he was on qualified official extended duty. This means he can disregard those 6 years. Therefore, David's 5-year test period consists of the 5 years before he went on qualified official extended duty. He meets the ownership and use tests because he owned and lived in the home for 2½ years during this test period.

Period of suspension. The period of suspension cannot last more than 10 years. Together, the 10-year suspension period and the 5-year test period can be as long as, but no more than, 15 years. You cannot suspend the 5-year period for more than one property at a time. You can revoke your choice to suspend the 5-year period at any time.

Example. Mary bought a home on April 1, 1990. She used it as her main home until September 1, 1993, when she went on qualified official extended duty with the Navy. She did not live in the house again before selling it on

August 1, 2006. Mary chooses to use the entire 10-year suspension period. Therefore, the suspension period would extend back from August 1, 2006, to August 1, 1996, and the 5-year test period would extend back to August 1, 1991. During that period, Mary owned the house all 5 years and lived in it as her main home from August 1, 1991, until September 1, 1993, a period of 25 months. She meets the ownership and use tests because she owned and lived in the home for 2 years during this test period.

Uniformed services. The uniformed services are:

- The Armed Forces (the Army, Navy, Air Force, Marine Corps, and Coast Guard),
- The commissioned corps of the National Oceanic and Atmospheric Administration, and
- The commissioned corps of the Public Health Service.

Foreign Service member. For purposes of the choice to suspend the 5-year test period for ownership and use, you are a member of the Foreign Service if you are any of the following.

- A Chief of mission.
- An Ambassador at large.
- A member of the Senior Foreign Service.
- A Foreign Service officer.
- Part of the Foreign Service personnel.

Qualified official extended duty. You are on qualified official extended duty if you serve on extended duty either:

- At a duty station at least 50 miles from your main home, or
- While you live in Government quarters under Government orders.

You are on extended duty when you are called or ordered to active duty for a period of more than 90 days or for an indefinite period.

Exception for individuals with a disability. There is an exception to the use test if, during the 5-year period before the sale of your home:

- You become physically or mentally unable to care for yourself, and
- You owned and lived in your home as your main home for a total of at least 1 year.

Under this exception, you are considered to live in your home during any time that you own the home and live in a facility (including a nursing home) that is licensed by a state or political subdivision to care for persons in your condition.

If you meet this exception to the use test, you still have to meet the 2-out-of-5-year ownership test to claim the exclusion.

Previous home destroyed or condemned. For the ownership and use tests, you add the time you owned and lived in a previous home that was destroyed or condemned to the time you owned and lived in the home on which you wish to exclude gain. This rule applies if any part of the basis of the home you sold depended on the basis of the destroyed or condemned home. Otherwise, you must have owned and lived in the same home for 2 of the 5 years before the sale to qualify for the exclusion.

Married Persons

If you and your spouse file a joint return for the year of sale, you can exclude gain if either spouse meets the ownership and use tests. (But see *Maximum Exclusion,* earlier.)

Example 1 — one spouse sells a home. Emily sells her home in June 2006. She marries Jamie later in the year. She meets the ownership and use tests, but Jamie does not. Emily can exclude up to $250,000 of gain on a separate or joint return for 2006. The $500,000 maximum exclusion for certain joint returns does not apply because Jamie does not meet the use test.

Example 2 — each spouse sells a home. The facts are the same as in *Example 1* except that Jamie also sells a home in 2006 before he marries Emily. He meets the ownership and use tests on his home, but Emily does not. Emily and Jamie can each exclude up to $250,000 of gain. The $500,000 maximum exclusion for certain joint returns does not apply because Emily and Jamie do not jointly meet the use test for the same home.

Death of spouse before sale. If your spouse died and you did not remarry before the date of sale, you are considered to have owned and lived in the property as your main home during any period of time when your spouse owned and lived in it as a main home.

Home transferred from spouse. If your home was transferred to you by your spouse (or former spouse if the transfer was incident to divorce), you are considered to have owned it during any period of time when your spouse owned it.

Use of home after divorce. You are considered to have used property as your main home during any period when:

- You owned it, and
- Your spouse or former spouse is allowed to live in it under a divorce or separation instrument and uses it as his or her main home.

Reduced Maximum Exclusion

You can claim an exclusion, but the maximum amount of gain you can exclude will be reduced if either of the following is true.

1. You did not meet the ownership and use tests, but the reason you sold the home was:

a. A change in place of employment,

b. Health, or

c. Unforeseen circumstances (as defined later).

2. Your exclusion would have been disallowed because of the rule described in *More Than One Home Sold During 2-Year Period,* later, except that the reason you sold the home was:

a. A change in place of employment,

b. Health, or

c. Unforeseen circumstances (as defined later).

Use *Worksheet 3*, shown later, to figure your reduced maximum exclusion.

A change in place of employment, health, or unforeseen circumstances (whichever applies) is considered to be the reason you sold your home if either of the following is true.

1. Your home sale qualifies under a “safe harbor.” A safe harbor is a set of certain facts and circumstances that qualifies you to claim a reduced maximum exclusion. The safe harbors are explained in detail later.
2. The primary reason you sold the home was a change in place of employment, health, or unforeseen circumstances. Factors that may be relevant in determining your primary reason for sale include whether:

a. Your sale and the circumstances causing it were close in time,

b. The circumstances causing your sale occurred during the time you owned and used the property as your main home,

c. The circumstances causing your sale were not reasonably foreseeable when you began using the property as your main home,

d. Your financial ability to maintain your home became materially impaired,

e. The suitability of your property as a home materially changed, and

f. During the time you owned the property, you used it as your home.

Change in Place of Employment

The sale of your main home is because of a change in place of employment if your primary reason for the sale is a change in the location of employment of a qualified individual.

Qualified individual. For purposes of the reduced maximum exclusion, a qualified individual is any of the following.

- You.
- Your spouse.
- A co-owner of the home.
- A person whose main home is the same as yours.

Employment. For this purpose, employment includes the start of work with a new employer or continuation of work with the same employer. It also includes the start or continuation of self-employment.

Distance safe harbor. A change in place of employment is considered to be the reason you sold your home if:

- The change occurred during the period you owned and used the property as your main home, and
- The new place of employment is at least 50 miles farther from the home you sold than the former place of employment was (or, if there was no former place of employment, the distance between your new place of employment and the home sold is at least 50 miles).

Example. Justin was unemployed and living in a townhouse in Florida that he had owned and used as his main home since 2005. He got a job in North Carolina and sold his townhouse in 2006. Because the distance between Justin’s new place of employment and the home he sold is at least 50 miles, the sale satisfies the conditions of the distance safe harbor. Justin’s sale of his home is considered to be because of a change in place of employment and he is entitled to a reduced maximum exclusion of gain from the sale.

Health

The sale of your main home is because of health if your primary reason for the sale is:

- To obtain, provide, or facilitate the diagnosis, cure, mitigation, or treatment of disease, illness, or injury of a qualified individual, or
- To obtain or provide medical or personal care for a qualified individual suffering from a disease, illness, or injury.

For purposes of this reason, a qualified individual includes, in addition to the individuals listed earlier under *Change in Place of Employment*, any of the following.

- Parent, grandparent, stepmother, stepfather.
- Child, grandchild, stepchild, adopted child.
- Brother, sister, stepbrother, stepsister, half brother, half sister.
- Mother-in-law, father-in-law, brother-in-law, sister-in-law, son-in-law, or daughter-in-law.
- Uncle, aunt, nephew, niece, or cousin.

The sale of your home is not because of health if the sale merely benefits a qualified individual’s general health or well-being.

Caution: *Complete this worksheet only if you qualify for a reduced maximum exclusion. (See* Reduced Maximum Exclusion.*) Complete column (A). Fill in both columns (A) and (B) on lines 2 through 6 only if you are married filing a joint return.*

			(A) **You**	(B) **Your Spouse**
1.	Maximum amount	**1.**	$250,000.00	$250,000.00
2a.	Enter the number of days (or months) that you used the property as a main home during the 5-year period* ending on the date of sale	**2a.**		
b.	Enter the number of days (or months) that you owned the property during the 5-year period* ending on the date of sale. If you used days on line 2a, you also must use days on this line and on lines 3 and 5. If you used months on line 2a, you also must use months on this line and on lines 3 and 5. (If married filing jointly and one spouse owned the property longer than the other spouse, both spouses are treated as owning the property for the longer period)	**b.**		
c.	Enter the smaller of line 2a or 2b	**c.**		
3.	Have you (or your spouse, if filing jointly) excluded gain from the sale of another home during the 2-year period ending on the date of this sale? **NO.** Skip line 3 and enter the number of days (or months) from line 2c on line 4. **YES.** Enter the number of days (or months) between the date of the most recent sale of another home on which you excluded gain and the date of sale of this home	**3.**		
4.	Enter the smaller of line 2c or 3	**4.**		
5.	Divide the amount on line 4 by 730 days (or 24 months). Enter the result as a decimal (rounded to at least 3 places). But do not enter an amount greater than 1.000	**5.**		
6.	Multiply the amount on line 1 by the decimal amount on line 5	**6.**		
7.	Add the amounts in columns (A) and (B) of line 6. This is your **reduced maximum exclusion**. Enter it here and on *Worksheet 2*, line 8	**7.**		

***If you were a member of the uniformed services or Foreign Service during the time you owned the home, see *Members of the uniformed services or Foreign Service* to determine your 5-year period.**

Example. In 2005, Chase and Lauren, husband and wife, bought a house that they used as their main home. Lauren's father has a chronic disease and is unable to care for himself. In 2006, Chase and Lauren sell their home in order to move into Lauren's father's house to provide care for him. Because the primary reason for the sale of their home was to provide care for Lauren's father, Chase and Lauren are entitled to a reduced maximum exclusion.

Doctor's recommendation safe harbor. Health is considered to be the reason you sold your home if, for one or more of the reasons listed at the beginning of this discussion, a doctor recommends a change of residence.

Unforeseen Circumstances

The sale of your main home is because of an unforeseen circumstance if your primary reason for the sale is the occurrence of an event that you could not reasonably have anticipated before buying and occupying your main home. You are not considered to have an unforeseen circumstance if the primary reason you sold your home was that you preferred to get a different home or your finances improved.

Specific event safe harbors. Unforeseen circumstances are considered to be the reason you sold your home if any of the following events occurred while you owned and used the property as your main home.

1. An involuntary conversion of your home.
2. Natural or man-made disasters or acts of war or terrorism resulting in a casualty to your home, whether or not your loss is deductible.
3. In the case of qualified individuals (listed earlier under *Change in Place of Employment*):
   a. Death,
   b. Unemployment (if the individual is eligible for unemployment compensation),
   c. A change in employment or self-employment status that results in the individual's inability to pay reasonable basic living expenses (listed under *Reasonable basic living expenses* next) for his or her household,
   d. Divorce or legal separation, or
   e. Multiple births resulting from the same pregnancy.
4. An event the Commissioner of IRS determined to be an unforeseen circumstance in published guidance of general applicability. For example, the Commissioner determined the September 11, 2001, terrorist attacks to be an unforeseen circumstance.

Reasonable basic living expenses. Reasonable basic living expenses for your household include the following expenses.

- Amounts spent for food.
- Amounts spent for clothing.
- Housing and related expenses.
- Medical expenses.
- Transportation expenses.
- Tax payments.
- Court-ordered payments.
- Expenses reasonably necessary to produce income.

Amounts spent on these items to maintain an affluent or luxurious standard of living are not reasonable basic living expenses.

More Than One Home Sold During 2-Year Period

You generally cannot exclude gain on the sale of your home if, during the 2-year period ending on the date of the sale, you sold another home at a gain and excluded all or part of that gain. If you cannot exclude the gain, you must include it in your income.

Exception. You still can claim an exclusion, but the maximum amount of gain you can exclude will be reduced, if the reason you sold the home was:

- A change in place of employment,
- Health, or
- Unforeseen circumstances (as defined earlier).

For details about this exception, see *Reduced Maximum Exclusion,* earlier.

Example 1. In September 2004, Paul and Nadine bought a new home. In November 2004, they sold their old home at a $40,000 gain. They had owned and lived in the old home for 4 years. They excluded the gain on the sale.

On October 1, 2006, Paul and Nadine sold the home they purchased in September 2004 at a $15,000 gain. The sale was not due to a change in place of employment, health, or unforeseen circumstances as defined in this publication. Because Paul and Nadine had excluded gain on the sale of another home within the 2-year period ending on October 1, 2006, they cannot exclude the gain on this sale.

Example 2. The facts are the same as in *Example 1* except that Paul and Nadine did not sell the home purchased in September 2004 until December 3, 2006. Because they had not excluded gain on the sale of another home within the 2-year period ending on December 3, 2006, they can exclude the gain on this sale.

Business Use or Rental of Home

You may be able to exclude gain from the sale of a home that you have used for business or to produce rental income. But you must meet the ownership and use tests.

Example 1. On May 29, 2000, Amy bought a house. She moved in on that date and lived in it until May 31, 2002, when she moved out of the house and put it up for rent. The house was rented from June 1, 2002, to March 31, 2004. Amy moved back into the house on April 1, 2004, and lived there until she sold it on January 30, 2006. During the 5-year period ending on the date of the sale (January 31, 2001 – January 30, 2006), Amy owned and lived in the house for more than 2 years as shown in the following table.

Five-Year Period	Used as Home	Used as Rental
1/31/01 – 5/31/02	16 months	
6/01/02 – 3/31/04		22 months
4/01/04 – 1/30/06	22 months	
	38 months	22 months

Amy can exclude gain up to $250,000. However, she cannot exclude the part of the gain equal to the depreciation she claimed or could have claimed for renting the house, as explained after *Example 2.*

Example 2. William owned and used a house as his main home from 2000 through 2003. On January 1, 2004, he moved to another state. He rented his house from that date until April 30, 2006, when he sold it. During the 5-year period ending on the date of sale (May 1, 2001 – April 30, 2006), William owned and lived in the house for 32 months (more than 2 years). He must report the sale on Form 4797. He can exclude gain up to $250,000. However, he cannot exclude the part of the gain equal to the depreciation he claimed or could have claimed for renting the house, as explained next.

Depreciation after May 6, 1997. If you were entitled to take depreciation deductions because you used your home for business purposes or as rental property, you cannot exclude the part of your gain equal to any depreciation allowed or allowable as a deduction for periods after May 6, 1997. If you can show by adequate records or other evidence that the depreciation allowed was less than the amount allowable, the amount you cannot exclude is the amount allowed.

Example. Dan sold his main home in 2006 at a $10,000 gain. He meets the ownership and use tests to exclude the gain from his income. However, he used one room of the home for business in 2005 and has records showing he claimed $1,000 depreciation. He can exclude $9,000 ($10,000 – $1,000) of his gain. He has a taxable gain of $1,000.

Property Used Partly for Business or Rental

If you use property partly as a home and partly for business or to produce rental income, the treatment of any gain on the sale depends partly on whether the business or rental part of the property is part of your home or separate from it.

Part of Home Used for Business or Rental

If the part of your property used for business or to produce rental income is within your home, such as a room used as a home office for a business, you do not need to allocate gain on the sale of the property between the business part of the property and the part used as a home. In addition, you do not need to report the sale of the business or rental part on Form 4797. This is true whether or not you were entitled to claim any depreciation. However, you cannot exclude the part of any gain equal to any depreciation allowed or allowable after May 6, 1997. See *Depreciation after May 6, 1997* earlier.

Example 1. Ray sold his main home in 2006 at a $30,000 gain. He meets the ownership and use tests to exclude the gain from his income. However, he used part of the home as a business office in 2005 and claimed $500 depreciation. Because the business office was part of his home (not separate from it), he does not have to allocate the gain on the sale between the business part of the property and the part used as a home. In addition, he does not have to report any part of the gain on Form 4797. He reports his gain, exclusion, and taxable gain of $500 on Schedule D (Form 1040).

Example 2. The facts are the same as in *Example 1* except that Ray was not entitled to claim depreciation for the business use of his home. Since Ray did not claim any depreciation, he can exclude the entire $30,000 gain.

Separate Part of Property Used for Business or Rental

You may have used part of your property as your home and a separate part of it for business or to produce rental income. Examples are:

- A working farm on which your house was located,
- An apartment building in which you lived in one unit and rented the others, or
- A store building with an upstairs apartment in which you lived.

Use test not met for business part. You cannot exclude gain on the separate part of your property used for business or to produce rental income unless you owned and lived in that part of your property for at least 2 years during the 5-year period ending on the date of the sale. If you do not meet the use test for the business or rental part of the property, an allocation of the gain on the sale is required. For this purpose, you must allocate the basis of the property and the amount realized upon its sale between the business or rental part and the part used as a home. See *Example 5*, later, for an example of how to do this. You must report the sale of the business or rental part on Form 4797.

Example 3. In 2002, Lew bought property that consisted of a house and a stable. He used the house as his main home and used the stable in his business for the next 4 years. He sold the entire property in 2006 at a $10,000 gain. Lew met the ownership and use tests for the house but did not meet the use test for the stable. Lew must allocate the basis of the property and the amount realized between the part of the property he used for his home and the part he used for his business, since the business part was separate from his home. Lew must report the gain on the business part of his property on Form 4797. He can exclude the gain on the part of the property that was his main home.

Example 4. In 2001, Mary bought property that consisted of a house and a barn. Mary used the house as her main home and used the barn in her antiques business. In 2005, Mary moved out of the house and rented it to tenants. She claimed depreciation on the house while renting it in 2005 and 2006. She continued to use the barn in her business. Mary sold the entire property in 2006 for a $21,000 gain. Mary must allocate the basis of the property and amount realized between the residential and business parts of the property since the barn is separate from her home. She must report the entire gain from the barn on Form 4797 since she did not meet the use test for the barn. She must also report gain on the home to the extent of the depreciation she claimed for the rental.

Use test met for business part (business use in year of sale). If you used a separate part of your property for business or to produce rental income in the year of sale, you should treat the sale of the property as the sale of two properties, even if you met the use test for the business or rental part. You must report the sale of the business or rental part on Form 4797.

To determine the amounts to report on Form 4797, you must divide your selling price, selling expenses, and basis between the part of the property used for business or rental and the separate part used as your home. In the same way, if you qualify to exclude any of the gain on the business or rental part of your property, also divide your maximum exclusion between that part of the property and the separate part used as your home. If you want to use *Worksheet 2* (shown earlier) to figure your exclusion and taxable gain from each part, fill out a separate *Worksheet 2 (Part 2)* for each.

Excluding gain on the business or rental part of your property. You generally can exclude gain on the part of your property used for business or rental if you owned and lived in that part as your main home for at least 2 years during the 5-year period ending on the date of the sale. If you used a separate *Worksheet 2 (Part 2)* to figure the exclusion for the business or rental part, do not fill out lines

10 and 11 of that *Worksheet 2.* Fill it out only through line 9. Then fill out Form 4797. Enter the exclusion for the business or rental part on Form 4797 as explained in the Form 4797 instructions. (Also see *Example 5*, next.)

If you have any taxable gain due to depreciation, you will need to use the *Schedule D Tax Worksheet* in the Schedule D (Form 1040) instructions, rather than the *Qualified Dividends and Capital Gain Tax Worksheet* in the Form 1040 instructions, to figure your tax. First, fill out the *Unrecaptured Section 1250 Gain Worksheet* in the Schedule D instructions. See line 11 of *Worksheet 2.*

Example 5. In January 2002, you bought and moved into a 4-story townhouse. In December 2004, you converted the basement level, which has a separate entrance, into a separate apartment by installing a kitchen and bathroom and removing the interior stairway that led from the basement to the upper floors. After you completed the conversion, your townhouse had a rental unit that was separate from the part of your house used as your home. You lived in the first, second, and third levels of the townhouse and rented the basement level to tenants until December 2006. You claimed depreciation of $2,000 for the basement apartment. You sold the entire townhouse in December 2006 for a $16,000 gain. Your records show the following.

Purchase price	$ 96,000
Improvements (kitchen and bath)	4,000
Depreciation (on rental part; all after 5/6/1997)	2,000
Selling price	124,000
Selling expenses	10,000

Because you met the ownership and use tests for both the basement apartment and the part of the house you used as your home, you can claim an exclusion for both parts. However, you must allocate your basis, selling price, and selling expenses between the part of the property you used as a main home and the part you rented out to tenants. You start by finding the adjusted basis of each part. You determine that three-fourths (75%) of your purchase price was for the part used as your home; one-fourth (25%) was for the rental part.

	Home (3/4)	Rental (1/4)
Purchase price	$72,000	$24,000
Plus: Improvements	–0–	4,000
Minus: Depreciation	–0–	2,000
Adjusted basis	$72,000	$26,000

Next, to figure the gain on each part, you decide to fill out a separate *Worksheet 2 (Part 1)* for each part, dividing your selling price and selling expenses between the two parts.

Worksheet 2. Gain or (Loss), Exclusion, and Taxable Gain on Sale of Home

Part 1 – Gain or (Loss) on Sale	Home (3/4)	Rental (1/4)
1) Selling price of home	$93,000	$31,000
2) Selling expenses	7,500	2,500
3) Subtract line 2 from line 1. This is the amount realized	$85,500	$28,500
4) Adjusted basis of home sold	72,000	26,000
5) Subtract line 4 from line 3. This is the gain or (loss)	$13,500	$2,500

Then, to figure your taxable gain and exclusion, you decide to fill out a separate *Worksheet 2 (Part 2)* for each part, dividing your maximum exclusion between the two parts. You are single, so the maximum exclusion is $250,000.

Part 2 – Exclusion and Taxable Gain	Home (3/4)	Rental (1/4)
6) Depreciation allowed or allowable after May 6, 1997	$–0–	$2,000
7) Subtract line 6 from gain figured earlier on line 5	13,500	500
8) Maximum exclusion	$187,500	$62,500
9) Exclusion (smaller of line 7 or line 8)	13,500	500
10) Taxable gain (gain figured earlier on line 5 minus line 9)	–0–	*
11) Smaller of line 6 or line 10	–0–	*

* Lines 10 and 11 do not need to be filled out for the rental part.

Do not report the gain from the part used as your home, $13,500, because you can exclude all of it. You report the gain from the rental part, $2,500, in Part III of Form 4797. You enter your exclusion, ($500), on Form 4797, line 2. Your taxable gain from the rental part is $2,000 ($2,500 – $500).

Use test met for business part (no business use in year of sale). If you have used a separate part of your property for business or to produce rental income (though not in the year of sale) but meet the use test for both the business or rental part and the part you use as a home, you do not need to treat the transaction as the sale of two properties. Also, you do not need to file Form 4797. You generally can exclude gain on the entire property.

Example 6. Assume the same facts as in *Example 5,* except that in March 2006, you combined the two separate dwelling units by eliminating the basement kitchen and building a new interior stairway to the upper floors. You used the entire townhouse as your main home for the rest of 2006. The entire townhouse was used as your main home for at least 2 years during the 5-year period ending on the date of the sale. You report the gain, $16,000, and the allowable exclusion ($14,000), in Part II of Schedule D (Form 1040). Since your $2,000 taxable gain is from depreciation, it is unrecognized section 1250 gain, so you must also enter it on line 12 of the *Unrecaptured Section 1250 Gain Worksheet* in the Schedule D (Form 1040)

instructions. You have no other amounts to enter on that worksheet, so you also enter $2,000 on line 19 of Schedule D. You then figure your tax using the *Schedule D Tax Worksheet.*

Reporting the Sale

Do not report the 2006 sale of your main home on your tax return unless:

- You have a gain and you do not qualify to exclude all of it, or
- You have a gain and choose not to exclude it.

If you have any taxable gain on the sale of your main home that cannot be excluded, report the entire gain realized (line 5 of *Worksheet 2*) on Schedule D (Form 1040). Report it in column (f) of line 1 or line 8 of Schedule D, as short term or long term capital gain depending on how long you owned the home. If you qualify for an exclusion (line 9 of *Worksheet 2*), show it on the line directly below the line on which you report the gain. Write "Section 121 exclusion" in column (a) of that line and show the amount of the exclusion in column (f) as a loss (in parentheses).

If you used the home for business or to produce rental income, you may have to use Form 4797 to report the sale of the business or rental part (or the sale of the entire property if used entirely for business or rental). See *Business Use or Rental of Home,* earlier.

Installment sale. Some sales are made under arrangements that provide for part or all of the selling price to be paid in a later year. These sales are called "installment sales." If you finance the buyer's purchase of your home yourself, instead of having the buyer get a loan or mortgage from a bank, you probably have an installment sale. You may be able to report the part of the gain you cannot exclude on the installment basis.

Use Form 6252, Installment Sale Income, to report the sale. Enter your exclusion (line 9 of *Worksheet 2*) on line 15 of Form 6252.

Seller-financed mortgage. If you sell your home and hold a note, mortgage, or other financial agreement, the payments you receive generally consist of both interest and principal. You must separately report as interest income the interest you receive as part of each payment. If the buyer of your home uses the property as a main or second home, you must also report the name, address, and social security number (SSN) of the buyer on line 1 of either Schedule B (Form 1040) or Schedule 1 (Form 1040A). The buyer must give you his or her SSN and you must give the buyer your SSN. Failure to meet these requirements may result in a $50 penalty for each failure. If you or the buyer does not have and is not eligible to get an SSN, see the next discussion.

Individual taxpayer identification number (ITIN). If either you or the buyer of your home is a nonresident or resident alien who does not have and is not eligible to get an SSN, the IRS will issue you (or the buyer) an ITIN. To apply for an ITIN, file Form W-7, Application for IRS Individual Taxpayer Identification Number, with the IRS.

If you have to include the buyer's SSN on your return and the buyer is an alien who does not have and cannot get an SSN, enter the buyer's ITIN. If you have to give an SSN to the buyer and you are an alien who does not have and cannot get one, give the buyer your ITIN.

An ITIN is for tax use only. It does not entitle the holder to social security benefits or change the holder's employment or immigration status under U.S. law.

More information. For more information on installment sales, see Publication 537, Installment Sales.

Comprehensive Examples

Example 1. Peter and Betty Clark, who are married and file a joint return, bought a home in 1964. They lived in it as their main home until they sold it in February 2006 and moved into a retirement community. The Clarks can exclude gain on the sale of their home because they owned and lived in it for at least 2 years of the 5-year period ending on the date of sale.

Their records show the following:

Original cost	$ 40,000
Legal fees for title search	250
Improvements (roof)	2,000
Selling price	395,000
Selling expenses, including commission	25,000

The Clarks use *Worksheet 1* to figure the adjusted basis of the home they sold ($42,250). They use *Worksheet 2* to figure the gain on the sale ($327,750) and the amount of their exclusion ($327,750). Their completed *Worksheets 1* and *2* follow.

Worksheet 1. **Adjusted Basis of Home Sold**
Illustrated Example 1 for Peter and Betty Clark

Keep for Your Records

Caution: *See the* Worksheet 1 Instructions *before you use this worksheet.*

1.	Enter the purchase price of the home sold. (If you filed Form 2119 when you originally acquired that home to postpone gain on the sale of a previous home before May 7, 1997, enter the adjusted basis of the new home from that Form 2119.)			**1.**	$40,000
2.	Seller-paid points for home bought after 1990. (See *Seller-paid points.*) Do not include any seller-paid points you already subtracted to arrive at the amount entered on line 1			**2.**	
3.	Subtract line 2 from line 1			**3.**	40,000
4.	Settlement fees or closing costs. (See *Settlement fees or closing costs.*) If line 1 includes the adjusted basis of the new home from Form 2119, go to line 6.				
a.	Abstract and recording fees	**4a.**			
b.	Legal fees (including fees for title search and preparing documents)	**4b.**	250		
c.	Survey fees	**4c.**			
d.	Title insurance	**4d.**			
e.	Transfer or stamp taxes	**4e.**			
f.	Amounts that the seller owed that you agreed to pay (back taxes or interest, recording or mortgage fees, and sales commissions)	**4f.**			
g.	Other	**4g.**			
5.	Add lines 4a through 4g			**5.**	250
6.	Cost of additions and improvements. Do not include any additions and improvements included on line 1			**6.**	2,000
7.	Special tax assessments paid for local improvements, such as streets and sidewalks			**7.**	
8.	Other increases to basis			**8.**	
9.	Add lines 3, 5, 6, 7, and 8			**9.**	42,250
10.	Depreciation allowed or allowable, related to the business use or rental of the home	**10.**			
11.	Other decreases to basis (See *Decreases to basis.*)	**11.**			
12.	Add lines 10 and 11			**12.**	
13.	**Adjusted basis of home sold**. Subtract line 12 from line 9. Enter here and on *Worksheet 2,* line 4			**13.**	$42,250

Worksheet 2. **Gain or (Loss), Exclusion, and Taxable Gain on Sale of Home**
Illustrated Example 1 for Peter and Betty Clark

Part 1 –	Gain or (Loss) on Sale		
1.	Selling price of home	**1.**	$395,000
2.	Selling expenses (including commissions, advertising and legal fees, and seller-paid loan charges)	**2.**	25,000
3.	Subtract line 2 from line 1. This is the amount realized	**3.**	370,000
4.	Adjusted basis of home sold (from *Worksheet 1,* line 13)	**4.**	42,250
5.	Subtract line 4 from line 3. This is the **gain or (loss)** on the sale. If this is a loss, stop here	**5.**	327,750
Part 2 –	Exclusion and Taxable Gain		
6.	Enter any depreciation allowed or allowable on the property for periods after May 6, 1997. If none, enter zero	**6.**	0
7.	Subtract line 6 from line 5. (If the result is less than zero, enter zero.)	**7.**	327,750
8.	If you qualify to exclude gain on the sale, enter your maximum exclusion. (See *Maximum Exclusion.*) If you do not qualify to exclude gain, enter -0-	**8.**	500,000
9.	Enter the smaller of line 7 or line 8. This is your **exclusion**	**9.**	327,750

10.	Subtract line 9 from line 5. This is your **taxable gain**. Report it as described under *Reporting the Sale*. If the amount on this line is zero, do not report the sale or exclusion on your tax return. **If the amount on line 6 is more than zero, complete line 11**	**10.**	0
11.	Enter the smaller of line 6 or line 10. Enter this amount on line 12 of the *Unrecaptured Section 1250 Gain Worksheet* in the instructions for Schedule D (Form 1040)	**11.**	

Since the Clarks are married and file a joint return for the year, they qualify to exclude the full amount of their gain. Because they choose to exclude the gain, they do not report the sale of the home on their return.

Example 2. The facts are the same as in *Example 1,* except that Peter and Betty Clark sold their home for $695,000 and they had no selling expenses. Their gain on the sale is $652,750. Since they are married, meet the ownership and use tests, and file a joint return for the year, they qualify to exclude $500,000 of the gain. They report the remaining gain of $152,750 ($652,750 – $500,000) on Schedule D (Form 1040). Their completed *Worksheet 2* appears next. (*Worksheet 1* remains the same as shown in *Example 1*.) The front page of the Clarks' Schedule D follows.

Worksheet 2. **Gain or (Loss), Exclusion, and Taxable Gain on Sale of Home Illustrated Example 2 for Peter and Betty Clark**

Part 1 – Gain or (Loss) on Sale			
1.	Selling price of home	**1.**	$695,000
2.	Selling expenses (including commissions, advertising and legal fees, and seller-paid loan charges)	**2.**	
3.	Subtract line 2 from line 1. This is the amount realized	**3.**	695,000
4.	Adjusted basis of home sold (from *Worksheet 1,* line 13)	**4.**	42,250
5.	Subtract line 4 from line 3. This is the **gain (or loss)** on the sale. If this is a loss, stop here	**5.**	652,750
Part 2 – Exclusion and Taxable Gain			
6.	Enter any depreciation allowed or allowable on the property for periods after May 6, 1997. If none, enter zero	**6.**	0
7.	Subtract line 6 from line 5. (If the result is less than zero, enter zero.)	**7.**	652,750
8.	If you qualify to exclude gain on the sale, enter your maximum exclusion. (See *Maximum Exclusion.*) If you do not qualify to exclude gain, enter -0-	**8.**	500,000
9.	Enter the smaller of line 7 or line 8. This is your **exclusion**	**9.**	500,000
10.	Subtract line 9 from line 5. This is your **taxable gain**. Report it as described under *Reporting the Sale*. If the amount on this line is zero, do not report the sale or exclusion on your tax return. **If the amount on line 6 is more than zero, complete line 11**	**10.**	152,750
11.	Enter the smaller of line 6 or line 10. Enter this amount on line 12 of the *Unrecaptured Section 1250 Gain Worksheet* in the instructions for Schedule D (Form 1040)	**11.**	

SCHEDULE D (Form 1040)

Department of the Treasury Internal Revenue Service (99)

Capital Gains and Losses

▶ Attach to Form 1040 or Form 1040NR. ▶ See Instructions for Schedule D (Form 1040).

▶ Use Schedule D-1 to list additional transactions for lines 1 and 8.

OMB No. 1545-0074

2006

Attachment Sequence No. 12

Name(s) shown on return: Peter and Betty Clark

Your social security number: 000 00 0000

Part I **Short-Term Capital Gains and Losses—Assets Held One Year or Less**

	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-6 of the instructions)	(e) Cost or other basis (see page D-7 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)
1						
2	Enter your short-term totals, if any, from Schedule D-1, line 2		2			
3	**Total short-term sales price amounts.** Add lines 1 and 2 in column (d)		3			
4	Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824				4	
5	Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				5	
6	Short-term capital loss carryover. Enter the amount, if any, from line 10 of your **Capital Loss Carryover Worksheet** on page D-7 of the instructions				6	( )
7	**Net short-term capital gain or (loss).** Combine lines 1 through 6 in column (f)				7	

Part II **Long-Term Capital Gains and Losses—Assets Held More Than One Year**

	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-6 of the instructions)	(e) Cost or other basis (see page D-7 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)
8	Main home	3/5/64	2/5/06	695,000	42,250	652,750
	section 121 exclusion					(500,000)
9	Enter your long-term totals, if any, from Schedule D-1, line 9		9			
10	**Total long-term sales price amounts.** Add lines 8 and 9 in column (d)		10	695,000		
11	Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824				11	
12	Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				12	
13	Capital gain distributions. See page D-2 of the instructions				13	
14	Long-term capital loss carryover. Enter the amount, if any, from line 15 of your **Capital Loss Carryover Worksheet** on page D-7 of the instructions				14	( )
15	**Net long-term capital gain or (loss).** Combine lines 8 through 14 in column (f). Then go to Part III on the back				15	152,750

For Paperwork Reduction Act Notice, see Form 1040 or Form 1040NR instructions. Cat. No. 11338H **Schedule D (Form 1040) 2006**

Example 3. Emily White, a single person, bought a home in 1995. She lived in the home until May 31, 2004, when she moved out of the house and put it up for rent. Emily rented her home until May 31, 2005. She moved back into the house and lived there until she sold it on January 12, 2006.

Emily can exclude gain on the sale of her home because she owned and lived in the home for at least 2 years of the 5-year period ending on the date of the sale.

Emily's records show the following:

Original cost	$ 50,000
Legal fees for title search	750
Back taxes paid for prior owner	1,500
Improvements (deck)	2,000
Selling price	195,000
Selling expenses, including commission	15,000
Depreciation claimed after May 6, 1997	1,791

Emily uses *Worksheet 1* to figure the adjusted basis of the home she sold, $52,459. She uses *Worksheet 2* to figure the gain on the sale, $127,541, and the amount of her exclusion, ($125,750). Emily cannot exclude $1,791, the part of her gain equal to the depreciation claimed while the house was rented.

Emily reports her gain and exclusion in Part II of Schedule D (Form 1040). She enters $1,791 on line 12 of the *Unrecaptured Section 1250 Gain Worksheet* in the Schedule D (Form 1040) instructions. She has no other amounts to enter on that worksheet so, after completing it, she also enters $1,791 on line 19 of Schedule D. She then figures her tax using the *Schedule D Tax Worksheet* in the Schedule D (Form 1040) instructions.

Emily's completed *Worksheet 1* appears next. Her completed *Worksheet 2* and the front page of her Schedule D follow. Page 2 of Schedule D and her *Unrecaptured Section 1250 Gain Worksheet* are not shown.

Worksheet 1. **Adjusted Basis of Home Sold Illustrated Example 3 for Emily White**

Keep for Your Records

Caution: *See the* Worksheet 1 Instructions *before you use this worksheet.*

1.		Enter the purchase price of the home sold. (If you filed Form 2119 when you originally acquired that home to postpone gain on the sale of a previous home before May 7, 1997, enter the adjusted basis of the new home from that Form 2119.)		**1.**	$50,000
2.		Seller-paid points for home bought after 1990. (See *Seller-paid points.*) Do not include any seller-paid points you already subtracted to arrive at the amount entered on line 1		**2.**	
3.		Subtract line 2 from line 1		**3.**	50,000
4.		Settlement fees or closing costs. (See *Settlement fees or closing costs.*) If line 1 includes the adjusted basis of the new home from Form 2119, go to line 6.			
	a.	Abstract and recording fees	**4a.**		
	b.	Legal fees (including fees for title search and preparing documents)	**4b.** 750		
	c.	Survey fees	**4c.**		
	d.	Title insurance	**4d.**		
	e.	Transfer or stamp taxes	**4e.**		
	f.	Amounts that the seller owed that you agreed to pay (back taxes or interest, recording or mortgage fees, and sales commissions)	**4f.** 1,500		
	g.	Other	**4g.**		
5.		Add lines 4a through 4g		**5.**	2,250
6.		Cost of additions and improvements. Do not include any additions and improvements included on line 1		**6.**	2,000
7.		Special tax assessments paid for local improvements, such as streets and sidewalks		**7.**	
8.		Other increases to basis		**8.**	
9.		Add lines 3, 5, 6, 7, and 8		**9.**	54,250
10.		Depreciation allowed or allowable, related to the business use or rental of the home	**10.** 1,791		
11.		Other decreases to basis (See *Decreases to basis.*)	**11.**		
12.		Add lines 10 and 11		**12.**	1,791
13.		**Adjusted basis of home sold**. Subtract line 12 from line 9. Enter here and on *Worksheet 2,* line 4		**13.**	$52,459

Worksheet 2. **Gain or (Loss), Exclusion, and Taxable Gain on Sale of Home**
Illustrated Example 3 for Emily White

Keep for Your Records

Part 1 – Gain or (Loss) on Sale			
1.	Selling price of home	**1.**	$195,000
2.	Selling expenses (including commissions, advertising and legal fees, and seller-paid loan charges)	**2.**	15,000
3.	Subtract line 2 from line 1. This is the amount realized	**3.**	180,000
4.	Adjusted basis of home sold (from *Worksheet 1,* line 13)	**4.**	52,459
5.	Subtract line 4 from line 3. This is the **gain or (loss)** on the sale. If this is a loss, stop here	**5.**	127,541
Part 2 – Exclusion and Taxable Gain			
6.	Enter any depreciation allowed or allowable on the property for periods after May 6, 1997. If none, enter zero	**6.**	1,791
7.	Subtract line 6 from line 5. (If the result is less than zero, enter zero.)	**7.**	125,750
8.	If you qualify to exclude gain on the sale, enter your maximum exclusion. (See *Maximum Exclusion.*) If you do not qualify to exclude gain, enter -0-	**8.**	250,000
9.	Enter the smaller of line 7 or line 8. This is your **exclusion**	**9.**	125,750
10.	Subtract line 9 from line 5. This is your **taxable gain**. Report it as described under *Reporting the Sale*. If the amount on this line is zero, do not report the sale or exclusion on your tax return. **If the amount on line 6 is more than zero, complete line 11**	**10.**	1,791
11.	Enter the smaller of line 6 or line 10. Enter this amount on line 12 of the *Unrecaptured Section 1250 Gain Worksheet* in the instructions for Schedule D (Form 1040)	**11.**	$1,791

Special Situations

The situations that follow may affect your exclusion.

Sale of home acquired in like-kind exchange. You cannot claim the exclusion if:

- You acquired your home in a like-kind exchange (also known as a section 1031 exchange); or your basis in your home is determined by reference to the basis of the home in the hands of the person who acquired the property in a like-kind exchange (for example, you received the home from that person as a gift), and
- You sold the home during the 5-year period beginning with the date your home was acquired in the like-kind exchange.

Gain from a like-kind exchange is not taxable. This means that gain will not be recognized until you sell the property you receive. To defer gain from a like-kind exchange, you must have exchanged business or investment property for business or investment property of a like kind. For more information about like-kind exchanges, see Publication 544, Sales and Other Dispositions of Assets.

Home relinquished in a like-kind exchange. The same tests that apply to determine if you qualify to exclude gain from the sale of your main home (discussed earlier) also apply to determine if you qualify to exclude gain from the exchange of your main home for another property. Under certain circumstances, you may meet the requirements for both the exclusion of gain from the exchange of a main home and the nonrecognition of gain from a like-kind exchange (discussed above under *Sale of home acquired in like-kind exchange*). This can occur if you used your property as your main home for a period before the exchange that meets the use test, but at the time of the exchange, you used your home for business or rental purposes. This can also occur if you used your main home partly for business or rental purposes and then exchange the home. In these situations, you would first exclude the gain from the sale of your main home to the extent allowable, and then apply the nonrecognition of gain provisions of section 1031 for like-kind exchanges to defer any remaining gain. For more information, see Revenue Procedure 2005-14, which is on page 528 of Internal Revenue Bulletin 2005-7 at *www.irs.gov/pub/irs-irbs/irb05-07.pdf*.

Expatriates. You cannot claim the exclusion if the expatriation tax applies to you. The expatriation tax applies to U.S. citizens who have renounced their citizenship (and long-term residents who have ended their residency). For more information about the expatriation tax, see chapter 4 of Publication 519, U.S. Tax Guide for Aliens.

Home destroyed or condemned. If your home was destroyed or condemned, any gain (for example, because of insurance proceeds you received) qualifies for the exclusion.

Any part of the gain that cannot be excluded (because it is more than the maximum exclusion) can be postponed under the rules explained in:

- Publication 547, Casualties, Disasters, and Thefts, in the case of a home that was destroyed, or
- Chapter 1 of Publication 544, in the case of a home that was condemned.

SCHEDULE D (Form 1040)

Department of the Treasury Internal Revenue Service (99)

Capital Gains and Losses

▶ Attach to Form 1040 or Form 1040NR. ▶ See Instructions for Schedule D (Form 1040).

▶ Use Schedule D-1 to list additional transactions for lines 1 and 8.

OMB No. 1545-0074

2006

Attachment Sequence No. 12

Name(s) shown on return: Emily White

Your social security number: 000 00 0000

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-6 of the instructions)	(e) Cost or other basis (see page D-7 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)
1						
2	Enter your short-term totals, if any, from Schedule D-1, line 2		2			
3	**Total short-term sales price amounts.** Add lines 1 and 2 in column (d)		3			
4	Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824				4	
5	Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				5	
6	Short-term capital loss carryover. Enter the amount, if any, from line 10 of your **Capital Loss Carryover Worksheet** on page D-7 of the instructions				6	( )
7	**Net short-term capital gain or (loss).** Combine lines 1 through 6 in column (f)				7	

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-6 of the instructions)	(e) Cost or other basis (see page D-7 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)
8	Main home	9/3/95	1/12/06	180,000	52,459	127,541
	section 121 exclusion					(125,750)
9	Enter your long-term totals, if any, from Schedule D-1, line 9		9			
10	**Total long-term sales price amounts.** Add lines 8 and 9 in column (d)		10	180,000		
11	Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824				11	
12	Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				12	
13	Capital gain distributions. See page D-2 of the instructions				13	
14	Long-term capital loss carryover. Enter the amount, if any, from line 15 of your **Capital Loss Carryover Worksheet** on page D-7 of the instructions				14	( )
15	**Net long-term capital gain or (loss).** Combine lines 8 through 14 in column (f). Then go to Part III on the back				15	1,791

For Paperwork Reduction Act Notice, see Form 1040 or Form 1040NR instructions. Cat. No. 11338H **Schedule D (Form 1040) 2006**

Sale of remainder interest. Subject to the other rules in this publication, you can choose to exclude gain from the sale of a remainder interest in your home. If you make this choice, you cannot choose to exclude gain from your sale of any other interest in the home that you sell separately.

Exception for sales to related persons. You cannot exclude gain from the sale of a remainder interest in your home to a related person. Related persons include your brothers and sisters, half-brothers and half-sisters, spouse, ancestors (parents, grandparents, etc.), and lineal descendants (children, grandchildren, etc.). Related persons also include certain corporations, partnerships, trusts, and exempt organizations.

Deducting Taxes in the Year of Sale

When you sell your main home, treat real estate and transfer taxes on that home as discussed in this section.

Real estate taxes. You and the buyer must deduct the real estate taxes on your home for the year of sale according to the number of days in the real property tax year (the period to which the tax relates) that each owned the home.

- You are treated as paying the taxes up to, but not including, the date of sale. You can deduct these taxes as an itemized deduction on Schedule A (Form 1040) in the year of sale. It does not matter what part of the taxes you actually paid.
- The buyer is treated as paying the taxes beginning with the date of sale.

If the buyer paid your share of the taxes (or any delinquent taxes you owed), the payment increases the selling price of your home. The buyer adds the amount paid to his or her basis in the property.

Example. The tax on Dennis and Beth White's home was $620 for the year. Their real property tax year was the calendar year, with payment due August 1. They sold the home on May 7. Dennis and Beth are considered to have paid a proportionate share of the real estate taxes on the home even though they did not actually pay them to the taxing authority.

Dennis and Beth owned their home during the real property tax year for 126 days (January 1 to May 6, the day before the sale). They figure their deduction for taxes as follows.

1. Enter the total real estate taxes for the real property tax year	$620
2. Enter the number of days in the real property tax year that you owned the property	126
3. Divide line 2 by 365	.345
4. Multiply line 1 by line 3. This is your deduction. Enter it on line 6 of Schedule A (Form 1040)	$214

Since the buyers paid all of the taxes, Dennis and Beth also include the $214 in the home's selling price. The buyers add the $214 to their basis in the home. The buyers can deduct $406 ($620 − $214), the taxes for the part of the year they owned the home.

Form 1099-S. If the person responsible for closing the sale (generally the settlement agent) must file Form 1099-S, the information reported on the form to you and the IRS must include (in box 5) the part of any real estate tax that the buyer can deduct. If you actually paid the taxes for the year of sale, you must subtract the amount shown in box 5 of Form 1099-S from the amount you paid. The result is the amount you can deduct.

More information. For more information about real estate taxes, see Publication 530.

Transfer taxes. You cannot deduct transfer taxes, stamp taxes, and other incidental taxes and charges on the sale of a home as itemized deductions. However, if you pay these amounts as the seller of the property, they are expenses of the sale and reduce the amount you realize on the sale. If you pay these amounts as the buyer, include them in your cost basis of the property.

Recapturing (Paying Back) a Federal Mortgage Subsidy

If you financed your home under a federally subsidized program (loans from tax-exempt qualified mortgage bonds or loans with mortgage credit certificates), you may have to recapture all or part of the benefit you received from that program when you sell or otherwise dispose of your home. You recapture the benefit by increasing your federal income tax for the year of the sale. You may have to pay this recapture tax even if you can exclude your gain from income under the rules discussed earlier; that exclusion does not affect the recapture tax.

Loans subject to recapture rules. The recapture applies to loans that:

1. Came from the proceeds of qualified mortgage bonds, or
2. Were based on mortgage credit certificates.

The recapture also applies to assumptions of these loans.

Federal subsidy benefit. If you received a mortgage loan from the proceeds of a tax-exempt bond, you received the benefit of a lower interest rate than was customarily charged on other mortgage loans. If you received a mortgage credit certificate with your mortgage loan, you were able to reduce your federal income taxes by a mortgage interest tax credit. Both of these benefits are federal mortgage subsidies.

Sale or other disposition. The sale or other disposition of your home includes an exchange, involuntary conversion, or any other disposition.

For example, if you give away your home (other than to your spouse or ex-spouse incident to divorce), you are considered to have “sold” it. You figure your recapture tax as if you had sold your home for its fair market value on the date you gave it away.

When the recapture applies. The recapture of the federal mortgage subsidy applies only if you meet both of the following conditions.

- Within the first 9 years after the date you close your mortgage loan, you sell or otherwise dispose of your home at a gain.
- Your income for the year of disposition is more than that year's adjusted qualifying income for your family size for that year (related to the income requirements a person must meet to qualify for the federally subsidized program).

When recapture does not apply. The recapture does not apply if any of the following situations apply to you:

- Your mortgage loan was a qualified home improvement loan (QHIL) of not more than $15,000 ($150,000 for a QHIL used to repair damage from Hurricane Katrina to homes in the hurricane disaster area; for a QHIL funded by a qualified mortgage bond that is a qualified Gulf Opportunity Zone Bond; or for a QHIL for an owner-occupied home in the Gulf Opportunity Zone (GO Zone), Rita GO Zone, or Wilma GO Zone. See Publication 4492, Information for Taxpayers Affected by Hurricanes Katrina, Rita, and Wilma, for more information),
- The home is disposed of as a result of your death,
- You dispose of the home more than 9 years after the date you closed your mortgage loan,
- You transfer the home to your spouse, or to your former spouse incident to a divorce, where no gain is included in your income,
- You dispose of the home at a loss,
- Your home is destroyed by a casualty, and you replace it on its original site within 2 years after the end of the tax year when the destruction happened (within 5 years if the home was in the Hurricane Katrina disaster area and was destroyed by reason of the hurricane after August 24, 2005), or
- You refinance your mortgage loan (unless you later meet the conditions listed previously under *When the recapture applies*).

Notice of amounts. At or near the time of settlement of your mortgage loan, you should receive a notice that provides the federally subsidized amount and other information you will need to figure your recapture tax.

How to figure and report the recapture. The recapture tax is figured on Form 8828, Recapture of Federal Mortgage Subsidy. If you sell your home and your mortgage loan is subject to the recapture rules, you must file Form 8828 even if you do not owe a recapture tax. Attach Form 8828 to your Form 1040. For more information, see Form 8828 and its instructions.

How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

Contacting your Taxpayer Advocate. The Taxpayer Advocate Service is an independent organization within the IRS whose employees assist taxpayers who are experiencing economic harm, who are seeking help in resolving tax problems that have not been resolved through normal channels, or who believe that an IRS system or procedure is not working as it should.

You can contact the Taxpayer Advocate Service by calling toll-free 1-877-777-4778 or TTY/TDD 1-800-829-4059 to see if you are eligible for assistance. You can also call or write to your local taxpayer advocate, whose phone number and address are listed in your local telephone directory and in Publication 1546, The Taxpayer Advocate Service of the IRS - How To Get Help With Unresolved Tax Problems. You can file Form 911, Application for Taxpayer Assistance Order, or ask an IRS employee to complete it on your behalf. For more information, go to *www.irs.gov/advocate*.

Low income tax clinics (LITCs). LITCs are independent organizations that provide low income taxpayers with representation in federal tax controversies with the IRS for free or for a nominal charge. The clinics also provide tax education and outreach for taxpayers with limited English proficiency or who speak English as a second language. Publication 4134, Low Income Taxpayer Clinic List, provides information on clinics in your area. It is available at *www.irs.gov* or at your local IRS office.

Free tax services. To find out what services are available, get Publication 910, IRS Guide to Free Tax Services. It contains a list of free tax publications and describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.

Internet. You can access the IRS website at *www.irs.gov* 24 hours a day, 7 days a week to:

- *E-file* your return. Find out about commercial tax preparation and *e-file* services available free to eligible taxpayers.
- Check the status of your 2006 refund. Click on *Where's My Refund*. Wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your 2006 tax return available because you will need to know your social security number, your filing status, and the exact whole dollar amount of your refund.

- Download forms, instructions, and publications.
- Order IRS products online.
- Research your tax questions online.
- Search publications online by topic or keyword.
- View Internal Revenue Bulletins (IRBs) published in the last few years.
- Figure your withholding allowances using our withholding calculator.
- Sign up to receive local and national tax news by email.
- Get information on starting and operating a small business.

Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call 1-800-829-3676 to order current-year forms, instructions, and publications, and prior-year forms and instructions. You should receive your order within 10 days.
- *Asking tax questions.* Call the IRS with your tax questions at 1-800-829-1040.
- *Solving problems.* You can get face-to-face help solving tax problems every business day in IRS Taxpayer Assistance Centers. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. Call your local Taxpayer Assistance Center for an appointment. To find the number, go to *www.irs.gov/localcontacts* or look in the phone book under *United States Government, Internal Revenue Service*.
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call 1-800-829-4059 to ask tax questions or to order forms and publications.
- *TeleTax topics.* Call 1-800-829-4477 to listen to pre-recorded messages covering various tax topics.
- *Refund information.* To check the status of your 2006 refund, call 1-800-829-4477 and press 1 for automated refund information or call 1-800-829-1954. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your 2006 tax return available because you will need to know your social security number, your filing status, and the exact whole dollar amount of your refund.

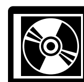
Evaluating the quality of our telephone services. To ensure IRS representatives give accurate, courteous, and professional answers, we use several methods to evaluate the quality of our telephone services. One method is for a second IRS representative to listen in on or record random telephone calls. Another is to ask some callers to complete a short survey at the end of the call.

Walk-in. Many products and services are available on a walk-in basis.

- *Products.* You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county government offices, credit unions, and office supply stores have a collection of products available to print from a CD or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.
- *Services.* You can walk in to your local Taxpayer Assistance Center every business day for personal, face-to-face tax help. An employee can explain IRS letters, request adjustments to your tax account, or help you set up a payment plan. If you need to resolve a tax problem, have questions about how the tax law applies to your individual tax return, or you're more comfortable talking with someone in person, visit your local Taxpayer Assistance Center where you can spread out your records and talk with an IRS representative face-to-face. No appointment is necessary, but if you prefer, you can call your local Center and leave a message requesting an appointment to resolve a tax account issue. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience. To find the number, go to *www.irs.gov/localcontacts* or look in the phone book under *United States Government, Internal Revenue Service*.

Mail. You can send your order for forms, instructions, and publications to the address below. You should receive a response within 10 business days after your request is received.

National Distribution Center
P.O. Box 8903
Bloomington, IL 61702-8903



CD for tax products. You can order Publication 1796, IRS Tax Products CD, and obtain:

- A CD that is released twice so you have the latest products. The first release ships in January and the final release ships in March.
- Current-year forms, instructions, and publications.
- Prior-year forms, instructions, and publications.
- Bonus: Historical Tax Products DVD - Ships with the final release.
- Tax Map: an electronic research tool and finding aid.

- Tax law frequently asked questions.
- Tax Topics from the IRS telephone response system.
- Fill-in, print, and save features for most tax forms.
- Internal Revenue Bulletins.
- Toll-free and email technical support.

Buy the CD from National Technical Information Service (NTIS) at *www.irs.gov/cdorders* for $25 (no handling fee) or call 1-877-CDFORMS (1-877-233-6767) toll free to buy the CD for $25 (plus a $5 handling fee). Price is subject to change.

CD for small businesses. Publication 3207, The Small Business Resource Guide CD for 2006, is a must for every small business owner or any taxpayer about to start a business. This year's CD includes:

- Helpful information, such as how to prepare a business plan, find financing for your business, and much more.
- All the business tax forms, instructions, and publications needed to successfully manage a business.
- Tax law changes for 2006.
- Tax Map: an electronic research tool and finding aid.
- Web links to various government agencies, business associations, and IRS organizations.
- "Rate the Product" survey—your opportunity to suggest changes for future editions.
- A site map of the CD to help you navigate the pages of the CD with ease.
- An interactive "Teens in Biz" module that gives practical tips for teens about starting their own business, creating a business plan, and filing taxes.

An updated version of this CD is available each year in early April. You can get a free copy by calling 1-800-829-3676 or by visiting *www.irs.gov/smallbiz*.

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To help us develop a more useful index, please let us know if you have ideas for index entries. See "Comments and Suggestions" in the "Introduction" for the ways you can reach us.

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