Sale of Main Home (Form 1099-S)

Taxpayers often qualify to exclude the gain on the sale of their primary residence, and in many cases do not need to report this sale on their tax return. Sometimes, however, the sale *does* need to be reported on a tax return, including when the taxpayer receives **Form 1099-S, Proceeds From Real Estate Transactions**.

The sale or exchange of a main home must be reported on Form 8949 if:

- The taxpayer can't exclude all of their gain from income,
- The taxpayer has a gain and chooses not to exclude it, or
- The taxpayer received a Form 1099-S for the sale or exchange.

The taxpayer does not have to report the sale of their main home if none of the above apply because generally, if the two tests below are met, the taxpayer can exclude up to $250,000 of gain. If both the taxpayer and their spouse meet these tests and file a joint return, they can exclude up to $500,000 of gain (but only one spouse needs to meet the ownership requirement in Test 1).

> **TEST 1:** During the 5-year period ending on the date the taxpayer sold or exchanged their home, they owned it for 2 years or more (the **ownership requirement**) and lived in it as their main home for 2 years or more (the **use/residence requirement**).
>
> **TEST 2:** The taxpayer hasn't excluded gain on the sale or exchange of another main home during the 2-year period ending on the date of the home sale (**look-back requirement**).

If the taxpayer has a gain that *can't* be excluded, it is taxable. Any loss is not deductible.

Form 1099-S is usually only issued if the profit exceeded the total gain that could be exempted, or the bank could not confirm the taxpayer's eligibility for this exemption. Form 1099-S may also list the purchase price or tax appraisal value of the home, but may not include any adjustments to the basis. If a client indicates on their intake sheet that they sold a home during the tax year, we may need to ask for additional details, and we recommend sending the return to Drop Off.

Note that Form 1099-S is only in scope for VITA for a taxpayer's personal residence. If the real estate transaction concerns like-kind exchanges, installment sales income, or **a home that was used for business or rental purposes**, the return for the tax year on Form 1099-S is **out of scope. Reduced exclusions are also out of scope** (see Pub 4012 Tab D-54).

If the home being sold was **received through an inheritance or as a gift** and the taxpayer or spouse has been **using the home as a personal residence**, this scenario is still in scope for VITA.

The taxpayer must provide the cost basis of the residence (see Inheritance). Tests 1 and 2 then apply to exclude the gain. **Sale of an inherited or gifted home is otherwise out of scope.**

You can find more information about tax rules that apply when you sell (or otherwise give up ownership of) a home in **IRS Publication 523, Selling Your Home**. See also **IRS Publication 4012** Tabs D-52 through D-56.

Definition of Main Home

This is ordinarily the home the taxpayer lived in most of the time. If a taxpayer owns and lives in just one home, then that property is their main home.

Taxpayers with more than one home cannot choose which home to designate as their main home. Taxpayers who own or live in more than one home must apply a "facts and circumstances" test to determine which property is their main home. See Pub 523 for details.

The home does not have to be a traditional house. A single-family home, a condominium, a cooperative apartment, a mobile home, and a houseboat each may be a main home.

Inheritance

If the taxpayer inherited the home before selling during the tax year, we need the following information:

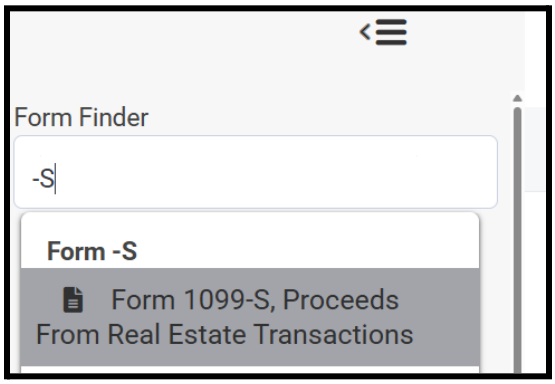
- ☐ The year the home was inherited.
- ☐ Fair Market Value of the home at the former homeowner's date of death ("**stepped-up basis**").
- ☐ Percentage ownership, if multiple people inherited the same home (e.g. siblings).
- ☐ The cost of any improvements made to the home since the inheritance.
- ☐ The closing statement, including a breakdown of closing costs.

Basis is typically the price originally paid for an asset plus the cost of improvements. A "step-up in basis" resets the tax value of an inherited asset to its Fair Market Value on the date of the original owner's death. This eliminates capital gains taxes on all appreciation that occurred during the decedent's lifetime, potentially saving heirs substantial money when they sell.

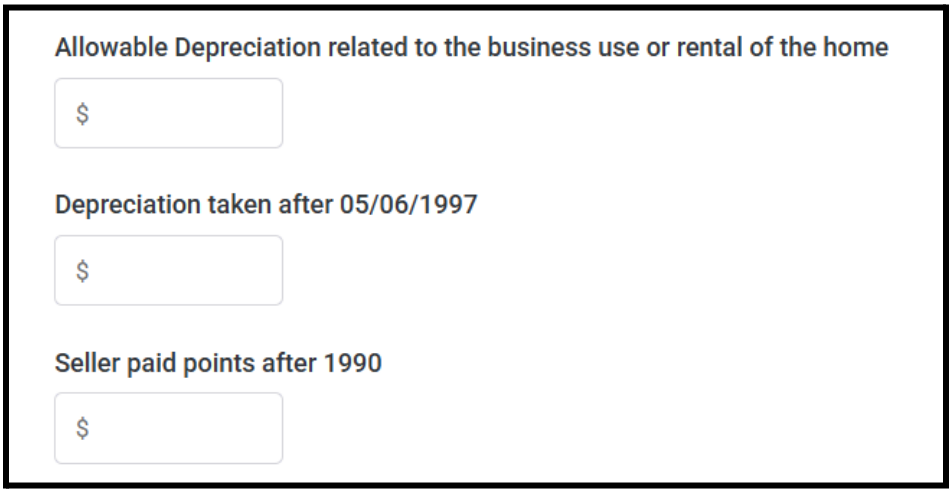
When an heir inherits, the heir's new cost basis is "stepped up" to the higher market value at the time of death. If the heir immediately sells the asset at this stepped-up value, the heir will owe zero capital gains tax. The heir is only responsible for taxes on any appreciation that happens *after* inheriting the home. This is why the FMV of the home at time of death is needed. Ask if the taxpayer had an appraisal done at the time of the inheritance to determine FMV.

TaxSlayer Entry Screens

In the Form Finder search bar, enter "-S" as the keyword to open the Sale of Main Home worksheet and entry screens.

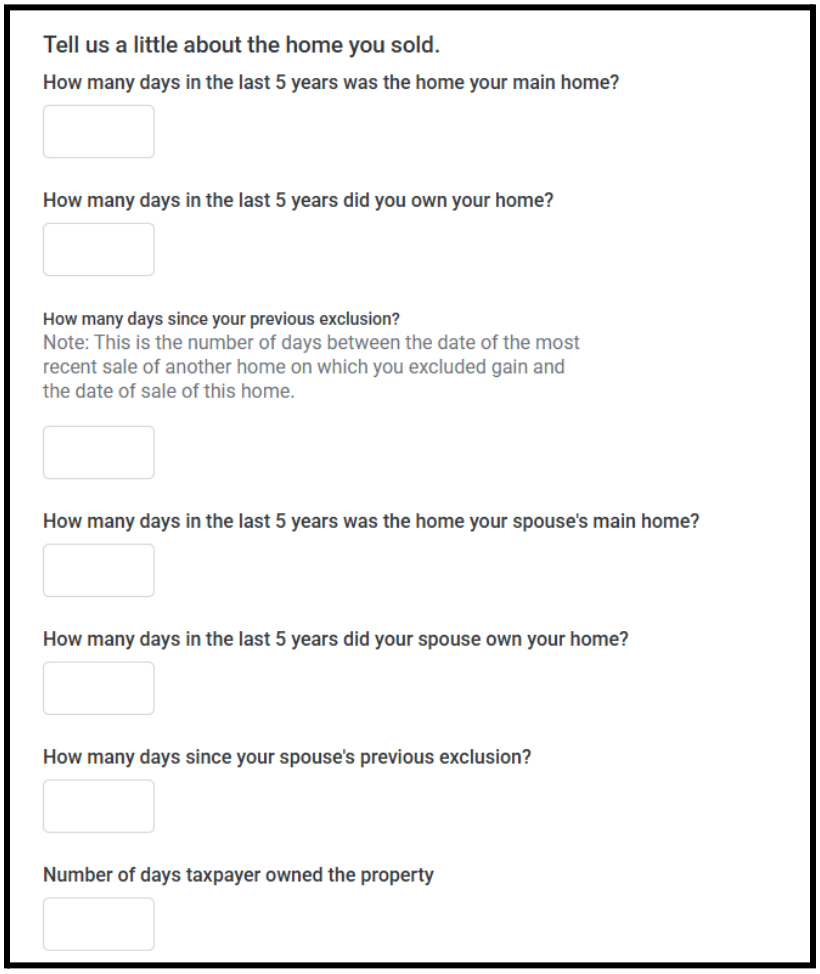


TaxSlayer will first provide fields to enter basic information, like the name of the recipient on Form 1099-S, the original date of purchase, the purchase price, the date of sale, and the sale price. If the taxpayer provides a value for any of these next few questions, the return is out of scope:

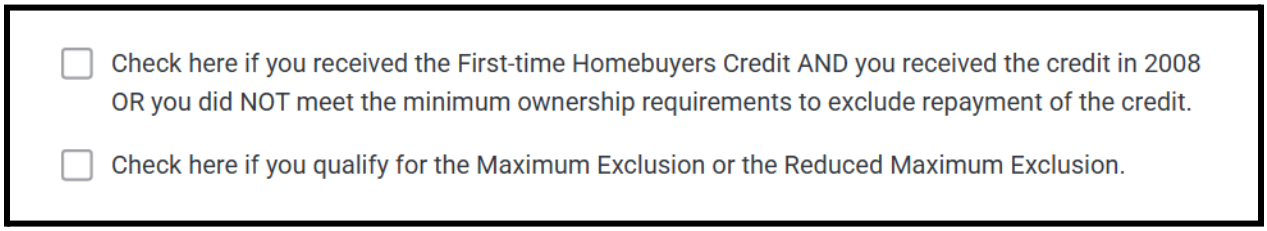


The next section (screenshot on the following page) will calculate certain time durations to help determine whether the taxpayer(s) pass Tests 1 and 2 (see Page 1 of this guide).

Here is a Days Between Dates online calculator. Enter the start and end dates of the calculation, then check the "Include end date in calculation (1 day is added)" box before clicking the green "Calculate Duration" button.

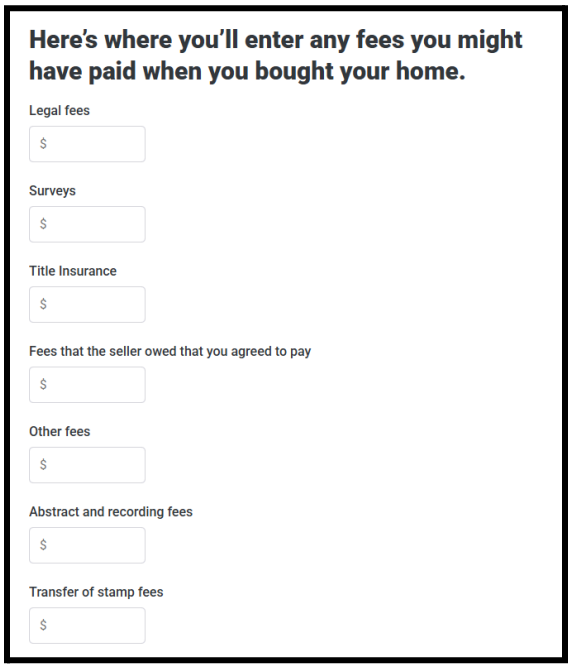


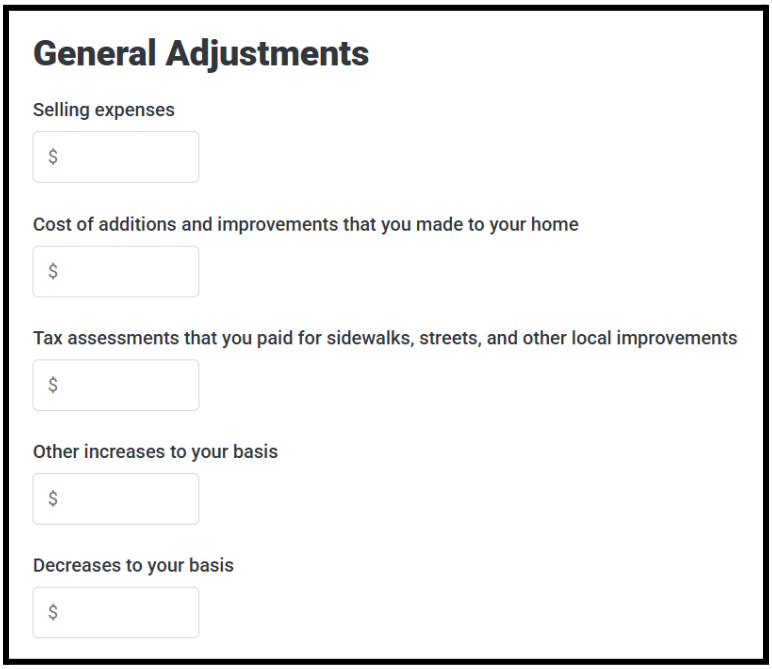
Taxpayers selling their main home who pass Tests 1 and 2 should check the box “Check here if you qualify for the Maximum Exclusion or the Reduced Maximum Exclusion.” If this box is checked, you do not need to enter anything on the next screen, “Adjustments” or “Adjustments to the sale,” because all of the gain from the home sale will be excluded regardless.



If the taxpayer(s) do not qualify for the Maximum Exclusion and you cannot check this box, you will need closing documents from the original purchase, a list of home sale closing costs, and a list of any improvements the taxpayer(s) have made to the property throughout its ownership.

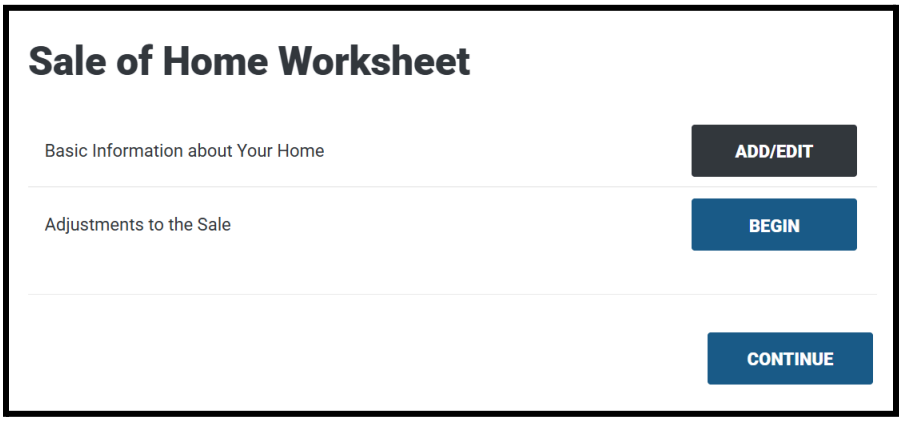
Review any closing documents or settlement statements the taxpayer provides. Enter the following on the “Adjustments to the Sale” screen:





Adjustments to Basis on Incorrect Form 1099-S

For most transactions, you do not need to adjust the basis. You may need to adjust the basis if the taxpayer received a 1099-S (or substitute statement) that is incorrect, is excluding or postponing a capital gain, has a disallowed loss, or in certain other situations.



Details relevant to Form 1099-S are in the table below. See Pub 4012 Tab D-50 for more.

Try entering relevant information in the Sale of Main Home worksheet screen in TaxSlayer first, under “Adjustments to the Sale,” then check that Form 8949 in the printset preview populates appropriately according to the chart below and applying Code E or H in Part II, Box 1(f).

IF THE TAXPAYER…	THEN…	Check the box with this description	Adjustment Code that will appear on Form 8949
Received a Form 1099-S (or substitute statement) and there are selling expenses that are not reflected on the form or schedule…	Enter the proceeds as reported in Box 2a. Enter as an adjustment using a minus sign for any selling expenses paid (and that are not reflected on the form or statement received).	Form 1099-B or Form 1099-S with selling expenses or options not reflected on the form.	E
Sold or exchanged their main home at a gain, must report the sale or exchange and can exclude some or all of the gain…	Report the sale or exchange as if the taxpayer were not taking the exclusion. Then enter the amount of excluded (nontaxable) gain as a negative number.	Exclude Some/All of the Gain from the Sale of Your Main Home	H