Will you pay tax on the sale of your home? Likely not, unless you have gains that are more than $250,000 (or more than $500,000 for married couples).

**Old rule:** It used to be that once you reached the age of 55, you had the one-time option of excluding up to $125,000 of gain on the sale of your home (your primary residence). That rule changed in 1997.

**New rule:** Now, anyone, regardless of age, can exclude $250,000 of gain ($500,000 for a married couple filing jointly) on the sale of their home.

That means most people will pay no tax on the sale of their home - unless they have lived there for less than two out of the last five years

As with all IRS regulations, there are rules you must follow to qualify for the tax-free gain. Below is an overview of the tax rules that apply when you sell your home.

**Who Qualifies for Tax-free Gains When They Sell Their Home?**

To qualify for the capital gain tax exclusion on your home sale, you must meet the following [IRS requirements](https://www.irs.gov/taxtopics/tc701.html" \t "_blank).

* Owned the home for at least 2 years (the ownership test),
* Lived in the home as your main home for at least 2 years (the use test - if you plan on renting your home for part of the year study this use test carefully, the amount of gain you can exclude from taxes may be proportional to how much you use it vs. rent it), and
* During the 2-year period ending on the date of sale, you did not exclude gain from the sale of another home.

You can use this capital gain exclusion to avoid [tax on a home sale](https://www.thebalance.com/sale-of-your-home-3193496) over and over.

**How Are Gains or Losses Calculated?**

Calculate the capital gain on your home by taking the original purchase price of the home (what you paid for it), less any applicable selling costs, less the cost basis (what you paid for the home [plus the cost of any qualifying home improvements](https://www.irs.gov/publications/p523/ar02.html" \l "en_US_2015_publink100010750" \t "_blank).)

For example, let's say you paid $100,000 and spent $20,000 in additions. Your cost basis is $120,000. You then take the price your house sells for less any commissions. Let's say your house sells for $250,000 and commissions and fees were $6,000. You receive $244,000. The difference between the $244,000 and the $120,000 is your capital gain. If you have lived in the home for the past two years, and meet the other requirements, you will not pay tax on this gain.

If you have a loss - meaning your home is worth less than what you paid - you do not get to take the loss as a tax deduction.

**What If You Have More than $250k ($500k if Married) of Gains?**

You will pay taxes on a home sale on amounts of gain that are more than the excludable amount. This type of gain is taxed at the [capital gains tax rate](https://www.thebalance.com/capital-gains-tax-3192969). To help reduce the amount of taxable gains, keep receipts and records of any improvements you made to the home. Certain types of home improvements can be added to your cost basis, and will thus reduce the amount of reported gain.

**What If You Haven't Owned and Lived in the Home for at Least Two Years?**

If you’ve owned the home less than one year, any gain over the excludable amount is taxed at a rate that will be the same as your ordinary income tax rate.

If you’ve owned the home longer than one year, the capital gains tax rate will apply, which will likely be lower than your [ordinary income tax rate](https://www.thebalance.com/federal-income-tax-rates-for-the-year-2016-3193200).

**How to Use Tax-free Home Equity to Accumulate Retirement Wealth**

One couple I know used this tax exclusion on gains to accumulate retirement assets. He was a home builder, and every two years, he bought land and built the family a new home. As soon as they moved into the new home, he would sell the old home and use some of the tax-free money from the sale of that home to begin building the next one.

Although moving every two years is not for everyone, it did allow them to accumulate assets tax-free. Every two years they would use some of the tax-free gains to build the next home and deposit some into his investment account.

The risk of this strategy: during times where real estate depreciates, this plan won’t work.

You could get stuck holding two homes for several years until the market recovers.