

Understanding the Capital Gains Section 121 Exclusion

SECTION 121 EXCLUSION

Did you know that homeowners might have the opportunity to exclude a substantial part of their profit when selling their primary residence?

According to Section 121 of the Internal Revenue Code, qualified homeowners can omit capital gains from their taxable income upon selling their home, which could lead to significant tax savings.

WHAT IS THE SECTION 121 EXCLUSION?

The 121 Exclusion allows homeowners to exclude up to:

- ▶ \$250,000 in capital gains for single filers
- ▶ \$500,000 in capital gains for married couples filing jointly

This exclusion applies to profits made from the sale of a primary residence, not investment or rental properties (with some exceptions).

WHO QUALIFIES?

To qualify, homeowners generally must meet the following requirements:

- The home was owned for at least 2 years
- The home was used as a primary residence for at least 2 of the last 5 years before the sale
- The exclusion has not been used within the past 2 years

The two years do not have to be consecutive.

KEY CONSIDERATIONS

While many homeowners qualify for the Section 121 Exclusion, certain factors may affect eligibility or the amount that can be excluded. Situations such as prior rental or investment use of the property, claiming a home office deduction, participation in a previous 1031 exchange, or changes in ownership or occupancy timelines can impact how the exclusion applies. In some cases, homeowners may still qualify for a partial exclusion due to job relocation, health circumstances, or other unforeseen events. Because each situation is unique, **consulting with a qualified tax professional is strongly recommended prior to the sale of a home.**