

Federal Tax / Capital Gains Exclusion on Sale of Principal Residence

NAR Committee:

Federal Taxation Committee

What is the fundamental issue?

In 1997, Congress enacted an exclusion for the profit or gain on the sale of a principal residence. Taxpayers who file a joint return can exclude up to \$500,000 of their home sale profit (capital gain) from taxation. All others may exclude up to \$250,000. The 1997 provision was not indexed for inflation. In 2007, Congress enacted a modest limitation on the value of the exclusion when an individual sells a home that once was used as a second home or rental property and then later converted to a principal residence.

In a growing number of areas of the nation that have experienced high amounts of residential real estate price appreciation in recent years, the \$250,000/\$500,000 maximum exclusion amount often proves too small to prevent many homeowners, and especially longer-term homeowners, from having to pay a significant amount of tax if they were to sell their homes, even when they wish to do so because of the need to downsize or for other reasons related to aging. This has constricted the real estate market in many areas, resulting in fewer homes available for first-time or move-up buyers to purchase.

I am a real estate professional. What does this mean for my business?

The 1997 exclusion was one of the most taxpayer- and homeowner-friendly provisions enacted in many years. It offered an excellent retirement planning foundation. The change also eliminated the requirement that proceeds from the sale of a principal residence be reinvested in another property of the same or greater value. This facilitated mobility from high cost to lower cost areas, and also greatly simplified the tax compliance burden for homeowners. Moreover, it allowed the homeowner the greatest freedom in the use of his/her capital. Proceeds from the sale of a principal residence may be used to purchase another principal residence, a second home, investment property, cover other retirement needs, or in any other manner the seller chooses.

As great as this change was, it came with the major flaw that the maximum exclusion amounts were not indexed for inflation. This failure means that every year the exclusion becomes less valuable as home sale profits reach and exceed the \$250,000 and \$500,000 amounts. Thus, the benefits of the 1997 change continue to erode as prices climb due to inflation, but the thresholds do not.

NAR Policy:

The \$250,000/\$500,000 exclusion amounts should be doubled and indexed for future inflation.

Opposition Arguments:

Opponents may say that this exclusion is just another tax benefit that mostly benefits higher-income

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taxpayers and should not be increased.

Legislative/Regulatory Status/Outlook

As this problem has grown in recent years, first in the higher cost coastal areas of the nation and in and around large cities, and more recently in a great many other regions as well, members of Congress have begun proposing solutions. The bipartisan More Homes on the Market Act was first introduced in the House of Representatives in 2022. This bill would double the exclusion levels to \$500,000 and \$1 million and index them for future inflation.

In addition, a second bill was introduced in mid-2025 that would eliminate entirely capital gains on home sales. President Trump has indicated that he would favor such a change, which has generated a great deal of attention to this issue and renewed hope that this growing issue can be alleviated in the near future.

Current Legislation/Regulation (bill number or regulation)

[US HR 1321](#): More Homes on the Market Act

No Tax on Home Sales Act (H.R. 4327) - Rep. Marjorie Taylor Greene (R-GA-14)

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