# NAR Issue Summaries

## Federal Tax / Capital Gains Exclusion on Sale of Principal Residence

### NAR Committee:

Federal Taxation Committee

### What is the fundamental issue?

In 1997, Congress enacted a tax exclusion for the gains on the sale of a principal residence. Taxpayers who file a joint return can exclude up to $500,000 of gain from taxation. All others may exclude $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 recent years, most areas of the nation have experienced high amounts of residential real estate price appreciation. As a result, the $250,000/$500,000 maximum exclusion amounts often prove too small to cover the net capital gain (profit on sale), which leaves the selling homeowner facing a tax on the gain. In a growing number of instances, long tenured and often older homeowners with large unrealized gains are dissuaded from selling their homes, even when they wish to do so because of the need to downsize or as part of their retirement plans. This has led to a large decrease in the number of homes going on the market in many areas, resulting in fewer transactions and frustrated would-be sellers and prospective buyers.

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

The exclusion is one of the most taxpayer-friendly provisions enacted in many years. It offers an excellent retirement planning foundation. The 1997 legislation eliminated the previous requirement that proceeds from the sale of a principal residence be reinvested in another property of the same or greater value. This change facilitated mobility from high cost to lower cost areas, and also greatly simplified the tax compliance burden for homeowners. Moreover, it allows 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 or in any other manner the owner chooses.

The lack of an indexing feature for the maximum exclusions means that every month the exclusion becomes less valuable as home sales prices increase and the net gains upon a sale reach and exceed the $250,000 and $500,000 amounts. Thus, the benefits of the 1997 change erode as prices climb due to inflation, but the thresholds do not. Economists project that had the thresholds been indexed for inflation since 1997, they would now be set at roughly twice their current amounts.

### NAR Policy:

The $250,000/$500,000 exclusion amount should be increased significantly and indexed for future inflation.

### Opposition Arguments:

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

## Legislative/Regulatory Status/Outlook

There is now a growing awareness among members of Congress that the frozen exclusion levels are exacerbating the housing inventory for sale crisis currently existing in most parts of the nation. As a result, two tax bills have been introduced in the current session of Congress to address this problem.

- The More Homes on the Market Act. This bipartisan legislation would double the current exclusion levels and index them for future inflation. This bill has over 80 cosponsors and was introduced in February 2025.
- The No Tax on Home Sales Act. This bill was introduced in July 2025 and has one cosponsor so far.

NAR's Advocacy Group is working with the Trump Administration and with key members of Congress in both parties to encourage them to push for a large increase in the exclusion levels on the capital gains exclusion for primary homes. NAR has commissioned recent studies that estimate the extent of the issue today and project how much worse it will grow without this relief and is sharing this information with congressional offices.

## Current Legislation/Regulation (bill number or regulation)

H.R. 1340: More Homes on the Market Act

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

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