# Taxes When You Sell Your Home: The $250,000 Rule and Its Fine Print

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Most homeowners selling a primary residence owe no federal tax on the gain at all, and most of them do not know why, or how easy the rule is to accidentally break. The rule is Section 121 of the tax code, the fine print matters, and a little record keeping protects a lot of money.

## THE EXCLUSION

Sell your principal residence and up to **$250,000 of gain is tax-free ($500,000 for a married couple filing jointly)**. Gain means sale price minus selling costs minus your basis (what you paid plus qualifying improvements), not your equity and not the sale price.

**To qualify:** you owned the home and used it as your principal residence for at least 2 of the 5 years ending on the sale date (the two years need not be continuous), and you have not used the exclusion on another sale in the prior 2 years. For a couple, either spouse can meet the ownership test, but both must meet the use test for the full $500,000.

## THE FINE PRINT THAT CATCHES PEOPLE

- **Moving early can still qualify, partially.** Selling before the 2-year mark because of a work move, health, or certain unforeseen circumstances earns a prorated exclusion. Half the time in the house, half the exclusion, which still shelters most normal gains.
- **Widowed sellers get 2 years.** A surviving spouse who sells within 2 years of the death can still take the full $500,000. Selling in year three drops it to $250,000; timing this decision has real dollars attached.
- **Rental years count against you.** Time a home spent as a rental or second home after 2008 ("nonqualified use") makes a slice of the gain taxable even when you pass the 2-of-5 test, and depreciation claimed while renting is recaptured separately. Converted homes deserve professional math.
- **Oregon taxes the rest.** Gain above the exclusion is taxed federally as capital gain and by Oregon as ordinary income (up to 9.9%). Long-time owners in appreciated markets can clear $250,000 of gain more easily than they expect.
- **Inherited homes play by better rules.** Heirs get a stepped-up basis to date-of-death value; see the companion Selling an Inherited Home guide.

## THE CHEAPEST TAX MOVE: KEEP RECORDS

Improvements raise your basis and shrink your taxable gain: the roof, the addition, the new septic, the heat pump, the well pump. Repairs and maintenance do not count; improvements do. A folder (paper or photos) of invoices for every project over a few hundred dollars is the difference between proving $80,000 of basis and guessing. Start it the week you buy, and mention the folder to your accountant the year you sell.

If the tax math is the deciding factor in whether or when to sell, get the professional answer first. Jamie's flat-fee **Pricing Session** establishes the market-value side of the equation: jamie-the-realtor.com/the-pricing-session.

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Tax law changes and individual situations differ; figures reflect federal law as of mid-2026 (IRC Section 121). This is general information only, not tax advice, and no outcome is promised. Confirm your situation with an accountant or tax attorney before acting, especially for rentals, inherited property, partial exclusions, or estates near Oregon's $1 million estate tax line.