PA Schedule 19

Sale of a Principal Residence

PA-19 (09–08) (FI)

PA DEPARTMENT OF REVENUE

20 _____

GENERAL INSTRUCTIONS

Act 45 of 1998 excludes the gain from the sale of a principal residence if the seller meets the specific requirements described below. The law excludes the entire gain. Pennsylvania does not follow the federal gain limits.

You do not need to submit this worksheet if you meet all the requirements described below and qualify for a full exclusion of gain. However, if you used your home for nonresidential purposes with the intention to realize a profit, you complete this worksheet to calculate your taxable gain or loss from the sale. A copy of the worksheet should then be included with your PA tax return. The information from this worksheet will be used to complete PA Schedule D, which you must also submit with your PA tax return. If you do not qualify for the exclusion but are reporting a gain or loss on the sale of a property that was used only for residential purposes, do not send this worksheet to the Department. However, keep a copy for your records.

Important. The requirements for this exclusion apply individually. This means that married taxpayers reporting the sale of their principal residence on separate PA tax returns must individually meet all the requirements to qualify for this exclusion. If only one spouse meets all the requirements, the other spouse must pay tax on his or her share of the gain on his or her separate PA tax return.

However, if married taxpayers report the sale of their principal residence on a joint PA tax return, only one spouse must meet the requirements.

If unmarried joint owners sell a principal residence, each owner must meet the requirements separately.

What is a Residence? A residence is a house, lodging, or other place of habitation, including a trailer or condominium, that has independent or self-contained cooking, sleeping, and sanitation facilities that the taxpayer physically occupied and used for residential purposes at some time during the past five years.

A residence is not a property that the taxpayer:

- Does not occupy; or
- Uses only on a sporadic and transient basis; or
- Uses only for a definite and promptly accomplishable purpose.

Taxpayers may exclude the gain from the sale of a principal residence if they meet each of these four requirements (1 through 4):

1. **DATE OF DISPOSITION**. The disposition of the principal residence must be after December 31, 1997. A disposition includes a sale, exchange, taking by eminent domain, destruction, or other disposition of property giving rise to a taxable gain. The date of disposition is the date the buyer accepts the deed and title passes from the seller to the buyer, usually the date of settlement. If the seller postpones the delivery of the deed, the date of disposition is the date when possession and the burdens and benefits of ownership pass from the seller to the buyer. For a condemnation, the date of disposition is the date when the taxpayer receives the condemnation proceeds. For destruction or casualty loss, the date of disposition is the date when the taxpayer receives the casualty insurance proceeds or damages.

2. **USE.** The taxpayer used or had used the residence as the principal residence for a total of at least two years during the five-year period preceding the date of sale.

   Example 1. John bought a house in Harrisburg on January 1, 1995. He lived there until July 1, 1996. He changed jobs and moved to Pittsburgh in July 1996. He maintained his Harrisburg home. He did not rent it or use it for any other purpose. He moved back to his Harrisburg residence in 1997 and lived there until he sold it in 1999. John meets the requirement for using his house as his principal residence for at least two years during the five-year period preceding the sale.

   Example 2. Use the same facts as in Example 1, except John never moved back to his Harrisburg home. He does not meet the use requirement for this exclusion. Even though he never rented his house or used it for any other purpose, John must pay PA income tax on any gain he realized from the sale of his Harrisburg home.

Important. In determining whether a residence was occupied and used for residential purposes, a taxpayer need not consider:

- An absence of less than ninety consecutive days, if the taxpayer does not make the residence available for rent during an absence.
- An absence of any length, if the taxpayer is in a hospital, nursing home, or a personal care facility, and the taxpayer does not make the residence available for rent during the absence.

3. **OWNERSHIP**. The taxpayer owned or had owned the residence as a principal residence for a total of at least two years during the five-year period preceding the date of sale.

   Example 3. Mary leased one half of a house in State College. She resided there since 1994. In 1996, she bought the entire property. She used the entire property as her principal residence until she sold it in 1999. Mary meets the ownership requirement for this exclusion.

   Example 4. Use the same facts as in Example 3, except Mary bought the house in 1998. She does not meet the ownership requirements, even though she used the entire house as her principal residence. She must pay PA income tax on any gain she realized from the sale of her State College home.

Important.

The taxpayer does not have to meet the use and ownership requirements simultaneously. However, the taxpayer must meet both during the five-year period preceding the date of the sale. A taxpayer may lease a property as a personal residence for one year and then purchase the residence. The taxpayer then lived in the residence for only one of the next four years. The taxpayer still qualifies for the exclusion. The taxpayer lived in the residence for a total of two years, one as renter and one as the owner, and owned the residence for the last four years before the sale.

4. **PRIOR SALE**. The taxpayer did not sell another principal residence during the two years preceding the date of sale.

   Example 5. Rob and Ann owned and lived in a house in Johnstown. In February 1996, they moved to Erie and bought a new house. In August 1996, they sold their Johnstown home. They owned and used the Erie home as their principal residence until they sold it in June 1999. They meet all the requirements for this exclusion.

   Example 6. Use the same facts as in Example 5, except Rob and Ann sold their Johnstown home in August 1997. They do not meet the prior sale requirement for this exclusion. They owned and used their house for at least two years during the five-year period preceding the sale. However, they must pay PA income tax on any gain they realized from the sale of their Erie home, because they sold a previous principal residence within two years of their 1999 sale.

Important.

A sale of a second principal residence is not disqualifying if the sale is due to an unforeseen change in employment, health, or severe financial hardship. An unforeseen change is one caused by an accident, illness, loss of property, casualty, or other unexpected event beyond the control of the taxpayer.

________**Example 7.** Use the same facts as in Example 6, except that Rob and Ann sold their Erie principal residence because Ann's employer relocated its operations to Williamsport. They qualify for this exclusion because of an unexpected change in employment.

EXCEPTIONS.

More Than One Home.

The residence that the taxpayer physically occupied and personally used the most during the five years preceding the sale is the principal residence. Moving furniture and personal belongings into a residence does not qualify as use. Even if the taxpayer's family physically occupied the residence, it is not the taxpayer's principal residence if he or she did not occupy and use it.

Example 8. Bill and Helen purchased a home in Pittsburgh in January 1995. Bill began working in Philadelphia in March 1995 and leased an apartment there. He commuted to Pittsburgh on weekends, holidays, and vacations. In January 1999, Bill and Helen sell their Pittsburgh residence. Helen meets the use and ownership requirements for the exclusion. Bill meets the ownership requirement. Bill does not meet the use requirement. He only used his Pittsburgh home for two months in 1995. His principal residence was his apartment in Philadelphia. Helen qualifies for the exclusion on her half of the gain from the sale of the Pittsburgh residence. Bill must pay PA income tax on his half of the gain. However, if Helen and Bill file a joint PA tax return, they both qualify for the full exclusion.

Deceased Taxpayer.

The authorized representative of a decedent may claim this exclusion on the final PA tax return of an otherwise qualifying decedent, only if the decedent entered into the sales agreement before death. The decedent's estate or trust may not exclude the gain from the sale of the decedent's principal residence.

Surviving Spouse.

A widow or widower must meet all the requirements for this exclusion, if his or her spouse did not meet all the requirements. However, if the decedent met all the requirements for this exclusion, the decedent's widow or widower meets the requirements for the exclusion, if not remarried.

Mixed Use Property.

If a taxpayer sells property that he or she used partly as a principal residence and partly for business, commercial, industrial, rental, investment, or other nonresidential purposes, then:

i. The taxpayer determines the gain separately on the portion of the property used for residential purposes and the portion of the property used for other purposes; and

ii. The gain attributable to the property used for nonresidential purposes does not qualify for the gain exclusion. The taxpayer must report the gain or loss on PA Schedule D.

Such mixed-use property includes a sole proprietor's residence above his retail store; a duplex where the owner rents one unit and lives in the other; and an office or licensed childcare facility located within a residence. Mixed use also includes property where the land surrounding the residence is more than the taxpayer reasonably needs for a residence. The land surrounding a farmhouse that the taxpayer uses for commercial agriculture, livestock breeding, or dairy purposes is not necessary for residential purposes.

Previous Business Use.

No portion of a principal residence that was leased or used with the intention to realize a profit, and was subject to the allowance for depreciation during the taxpayer's holding period qualifies for the exclusion. For example, a taxpayer who claimed and received allowable office-at-home expenses, including depreciation, may not exclude the gain on that portion of the principal residence. This applies even if the taxpayer stopped claiming office-at-home expenses.

Who Must File?

If you meet all the requirements for this exclusion and you do not have to report any part of your gain as taxable income for one of the reasons explained in the **EXCEPTIONS**, you do not report the sale of your principal residence to the Department of Revenue.

If you do not qualify for the full exclusion of the gain because you do not meet all the requirements, or you used part of your property for nonresidential purposes, you must report the sale and the taxable gain or loss on a PA Schedule D and your PA-40 and include a copy of the worksheet with your return if there is a gain or loss on the business or rental use portion of your principal residence.

Residential Use Worksheet Instructions

If you used your property for residential and other purposes with the intention to realize a profit, you must determine the residential use percentage. Answer these questions for the year of sale and then complete **Part I, Part II,** and/or **Part III.**

Question 1. At any time during the ownership of your principal residence, have you used any of the property surrounding your principal residence for business, commercial,industrial, rental, investment or other nonresidential purposes? . . . . ⬭ YES ⬭ NO

Question 2. At any time during the ownership of your principal residence, have you used any part of your principal residence itself for business, commercial, industrial, rental, investment, or other nonresidential purposes? . . . . ⬭ YES ⬭ NO

If you answer "NO" to both questions, you do not have to complete this worksheet.

Part I. - Complete this part if you answered **Question 1 only "YES"**.

1a. Fair market value of property used for residential purposes . . . . $ ________

1b. Fair market value of entire property . . . . $ ________

1c. Residential Use Factor (Divide Line 1a by Line 1b). Enter here and on Line 2. **(page 4)** . . . . ________ %

Part II. - Complete this part if you answered **Question 2 only "YES"**, and **Part I** above does not apply.

2a. Total square footage used for residential purposes. **Important**. Do not include any portion that was subject to depreciation at any time during the holding period. . . . . ________ sq. ft.

2b. Total square footage of entire property. . . . . ________ sq. ft.

2c. Residential Use Factor (Divide Line 2a by Line 2b). Enter here and on Line 2. **(page 4)** . . . . ________ %

Part III. - Complete this part if you answered both **Question 1** and **Question 2 "YES"**. You must complete Part I and II.

3. Residential Use Factor (Multiply the percentage on Line 1c by the percentage on Line 2c).
Enter here and on Line 2. **(page 4)** . . . . ________ %

Taxable Sale of a Principal Residence Worksheet (Page 4)

Instructions.

Enter your name(s), address of the residence sold, and Social Security Number(s).

General Information. - Complete Lines 1a through 1d.

Lines 1a and 1b are self-explanatory.

Line 1c. If you owned your principal residence with another person(s), enter your ownership interest as a percentage.

Example 1. You and your spouse jointly own your home. You each qualify for the exclusion and elect to file separate PA returns. Your ownership percentage is 50% (0.50).

Example 2. You, your sister, and your brother equally own the home. You are the only one who lives in the home. You meet all the requirements for the exclusion. They do not qualify. Your ownership percentage is 33.33% (0.33).

Line 1d. Enter the face value of any mortgage, note, or other financial instrument from which you will receive periodic payments of principal and/or interest from this sale.

Computing the Taxable Gain or Loss

Line 2. Enter your Residential Use Factor, from above. If you did not calculate a Residential Use Factor, enter 100%.

Line 3. Enter your share of the gross sales price or fair market value of cash and property received for the entire property, including the portion of the property used for nonresidential purposes, less your share of applicable expenses of sale, real estate commissions, transfer taxes, etc.

Lines 4 and 5 are self-explanatory.

Line 6. Enter the adjusted basis of the entire property. This usually is the same basis you use for federal purposes.

Line 7. Enter the adjusted basis of the portion of the property that you used for nonresidential purposes.

Line 8 is self-explanatory.

Lines 9, 10, and 11. Complete these lines only if you acquired your property before June 1, 1971. You must determine your alternative basis on Lines 9 and 10 using the methods prescribed on **PA Schedule D-71, Gain or Loss on Property Acquired Prior to June 1, 1971, (Form REV-1742)** for determining Alternative Basis and Determination of Fair Market Value as of June 1, 1971. The alternative basis is Column e on PA Schedule D-71.

Line 12 is the gain or loss on your residence.

- If Line 8 is greater than Line 4 and no depreciation deductions were allowed or allowable with respect to your residence, enter a zero on Line 12.
- If Line 8 is greater than Line 4 and depreciation deductions were allowed or allowable with respect to your residence, subtract Line 8 from Line 4 and enter the difference as a loss on Line 12.
- Otherwise, subtract Line 8 (or the larger of Line 8 or Line 11, if the residence was acquired prior to June 1, 1971) from Line 4 and enter the difference on Line 12 as a gain.

Line 13 is the gain or loss on the entire property computed without regard to the gain or loss on your residence.

- If the property was acquired after May 31, 1971, subtract Line 7 from Line 5 and enter the gain or loss.
- If the property was acquired before June 1, 1971 and both Line 7 and Line 10 are less than Line 5, subtract the larger of Line 7 or Line 10 from Line 5 and enter the difference as a gain.
- If the property was acquired before June 1, 1971 and Line 7 is greater than Line 5, subtract Line 5 from Line 7 and enter the difference as a loss.
- If the property was acquired before June 1, 1971 and Line 5 is not greater than Line 7 and Line 5 is not less than Line 10, enter zero.