

# Reduced Maximum Exclusion Under Section 121(c) on a 14-Month Ownership and Use Period Following a Change in Place of Employment

Research memorandum to Your Firm Name, CPAs, prepared October 9, 2026, on the May 16, 2025 sale of a jointly held principal residence and the availability of a reduced exclusion for the \$44,000 realized gain

|              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
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| Prepared for | Your Firm Name, CPAs                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Question     | Where a married couple owned and used their home as their principal residence for about 14 months before selling it in May 2025 following one spouse's change in place of employment to a location 61 miles farther from the home than the former workplace, do they qualify for a reduced maximum exclusion under section 121(c) and Reg. 1.121-3, is the \$44,000 realized gain fully excluded on a joint return, and how is the sale reported on the 2025 Form 1040? |
| Positions    | 3 supported of 5 researched                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Date         | October 9, 2026                                                                                                                                                                                                                                                                                                                                                                                                                                                         |

## Question presented

A married couple owned and used a home as their principal residence from March 8, 2024 to May 16, 2025, about 14 months, and sold it following one spouse's change in place of employment to a location 61 miles farther from the home than the former workplace. Three questions follow:

- Does the sale qualify for a reduced maximum exclusion under section 121(c) and Reg. 1.121-3, including the distance safe harbor of Reg. 1.121-3(c)(2)?
- How is the reduced maximum exclusion computed on a joint return, and does it cover the \$44,000 realized gain?
- How is the sale reported on the 2025 Form 1040?

## Short answer

### SHORT ANSWER

On the facts given, the sale is eligible for a reduced maximum exclusion under section 121(c), because the new place of employment is 61 miles farther from the residence sold than the former place of employment, which exceeds the 50 mile condition of Reg. 1.121-3(c)(2)(ii). The reduced maximum exclusion computed under Reg. 1.121-3(g)(1) using a 434 day numerator over a 730 day denominator is about \$148,630 for each spouse, or about \$297,260 combined, which is greater than the \$44,000 realized gain.

Two conditions are not established by the facts as stated: the date the taxpayers ceased using the home as their principal residence, which the safe harbor requires in order to place the change in place of employment inside the period of ownership and use, and the status of the employed spouse as a qualified individual under Reg. 1.121-3(f), the text of which was not retrieved. The reporting of the sale on the 2025 Form 1040 is not settled by the authority retrieved and is listed as an open question below. Nothing here is a prediction of how the Service would treat the position.

## Facts

The following facts were supplied by the firm and are used as given. Figures are not drawn from memory.

- Married couple filing jointly for 2025. Both spouses are under 65.
- The home was purchased March 8, 2024 for \$410,000, with \$6,200 of closing costs added to basis, for an adjusted basis of \$416,200.
- The home was sold May 16, 2025 for \$468,000, with \$7,800 of selling costs, for an amount realized of \$460,200.
- Realized gain is \$44,000.
- The period from acquisition to sale is 434 days, about 14 months, so the two year ownership and use tests of section 121(a) are not met.
- Both spouses lived in the home as their only residence for the entire ownership period.
- One spouse's former place of employment was 9 miles from the home sold. The new place of employment is 70 miles from that home, a difference of 61 miles.
- The job offer was received in February 2025 and the new employment began in April 2025, both during the period the home was owned and used as the principal residence.
- The couple moved to a rental near the new job.
- Neither spouse excluded gain on another home sale in the two years before this sale.
- There was no business use of the home, no depreciation taken, and no rental of the home.

The facts do not state the state of residence or the state in which the home was located. No state income tax or state conformity analysis is performed, and the reduced exclusion is analyzed under federal law only.

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## **Analysis, Issue 1: eligibility for a reduced exclusion under section 121(c) and the change in place of employment safe harbor**

Authority as given: 26 CFR 1.121-3, together with section 121(c).

Rule. Section 121(c)(2) applies where subsection (a) would not apply because of a failure to meet the ownership and use requirements and the sale is by reason of a change in place of employment. Reg. 1.121-3(b) provides that if a safe harbor described in the section applies, the sale is deemed to be by reason of a change in place of employment, and only if no safe harbor applies must the taxpayer show under all the facts and circumstances that the change in place of employment was the primary reason for the sale.

The retrieved text of the safe harbor reads: "A sale or exchange is deemed to be by reason of a change in place of employment (within the meaning of paragraph (c)(1) of this section) if, (i) The change in place of employment occurs during the period of the taxpayer's ownership and use of the property as the taxpayer's principal residence; and (ii) The qualified individual's new place of employment is at least 50 miles farther from the residence sold or exchanged than was the former place of employment." Reg. 1.121-3(c)(3) treats employment as including commencement of employment with a new employer.

Application. First, subsection (a) would not apply but for section 121(c): the home was owned and used from March 8, 2024 to May 16, 2025, about 14 months, less than the 24 full months or 730 days required by Reg. 1.121-1(c)(1), so the ownership and use test fails. Second, the distance condition of Reg. 1.121-3(c)(2)(ii) is met on the stated figures: the new place of employment is 70 miles from the residence sold and the former place was 9 miles, a difference of 61 miles, which is at least 50 miles farther.

Third, employment with a new employer commenced in April 2025, within Reg. 1.121-3(c)(3), following a February 2025 offer. Fourth, the timing condition of Reg. 1.121-3(c)(2)(i) requires the change in place of employment to occur during the period of ownership and use as the principal residence.

The offer and the start of work both fall within the ownership period that ended May 16, 2025, but the facts do not state the date the taxpayers ceased to use the home as their principal residence and moved to the rental, so the facts do not establish that the change occurred during the period of use. Fifth, the status of the employed spouse as a qualified individual described in Reg. 1.121-3(f) is not established from the retrieved text, because paragraph (f) was not retrieved.

Limitations on the rule. The safe harbor is conditional, and both clauses (i) and (ii) of Reg. 1.121-3(c)(2) must be met. If the safe harbor fails, a reduced exclusion remains available only if the change in place of employment is the primary reason for the sale under all the facts and circumstances, weighed on the six factors listed in Reg. 1.121-3(b)(1) through (6). The reduced limitation is a ceiling computed by the section 121(c)(1) ratio, not the full dollar limitation of section 121(b).

PLR 201628002, which appeared in the retrieved set, is background only; by its own terms under section 6110(k)(3) it may not be used or cited as precedent.

Conclusion and grade. The distance element of the safe harbor is satisfied on the stated figures, and section 121(c)(2) is otherwise available because the two year test fails. Grade: VERIFIED as to the distance element and the failure of the section 121(a) test, with the two open conditions named above routed to the confirmation list.

**Analysis, Issue 2: computation of the reduced maximum exclusion on a joint return**

Authority as given: 26 CFR 1.121-3, with Reg. 1.121-2(a)(1) and (a)(3), and Publication 523 for the worksheet mechanics.

Rule. Reg. 1.121-3(g)(1) provides that the reduced maximum exclusion equals the maximum dollar limitation of \$250,000, or \$500,000 for certain joint filers, multiplied by a fraction.

The retrieved text reads: "The numerator of the fraction is the shortest of the period of time that the taxpayer owned the property during the 5-year period ending on the date of the sale or exchange; the period of time that the taxpayer used the property as the taxpayer's principal residence during the 5-year period ending on the date of the sale or exchange; or the period of time between the date of a prior sale or exchange of property for which the taxpayer excluded gain under section 121 and the date of the current sale or exchange."

The numerator may be stated in days or in months, and the denominator is 730 days or 24 months to match the measure used. Where the two year ownership and use requirements of Reg. 1.121-2(a)(3)(i) are not met, Reg. 1.121-2(a)(3)(ii) directs that the joint limitation is the sum of each spouse's separately determined amount.

Application. Both spouses owned and used the home from March 8, 2024 to May 16, 2025, and neither has a prior section 121 exclusion, so the shortest of the three periods in Reg. 1.121-3(g)(1) is the 434 day ownership and use period. The fraction is 434 over 730, about 0.5945. Because the two year test of Reg. 1.121-2(a)(3)(i) is not met, the limitation is computed spouse by spouse under Reg. 1.121-2(a)(3)(ii).

Publication 523 sets out the same spouse by spouse computation at Steps 1 through 4 of its reduced exclusion worksheet, and is cited here for the mechanics of the worksheet only.

| Item                                                      | Amount       |
|-----------------------------------------------------------|--------------|
| Days of ownership and use (March 8, 2024 to May 16, 2025) | 434          |
| Denominator                                               | 730          |
| Fraction                                                  | 0.5945       |
| Reduced limitation, spouse A (434/730 x \$250,000)        | \$148,630.14 |
| Reduced limitation, spouse B (434/730 x \$250,000)        | \$148,630.14 |
| Combined reduced maximum exclusion                        | \$297,260.27 |
| Realized gain from the stated figures                     | \$44,000.00  |

Limitations on the rule. The denominator must match the unit used in the numerator, 730 days or 24 months. Measuring in whole months rather than days produces a different and smaller limit on these facts, so the firm should make that choice deliberately. The \$250,000 and \$500,000 figures are those stated in the retrieved text of Reg. 1.121-3(g)(1) and Reg. 1.121-2(a)(1) and (a)(3)(i).

The \$500,000 joint amount applies only where the conditions of Reg. 1.121-2(a)(3)(i) are met, which include both spouses meeting the two year use requirement. A prior section 121 exclusion within the two years ending on the sale date would shorten the numerator under the third period in Reg. 1.121-3(g)(1).

Conclusion and grade. Using 434 days over 730 days, the reduced maximum exclusion is about \$148,630 for each spouse and about \$297,260 combined, which exceeds the \$44,000 realized gain. On these figures the choice between the \$500,000 joint base and the sum of two \$250,000 bases does not change the result. Grade: VERIFIED as to the computation, conditioned on eligibility under Issue 1.

**Analysis, Issue 3: realized gain and whether it is covered by the reduced exclusion**

Authority as given: IRS Publication 523, a procedural source, relied on here for the mechanics of the gain worksheet only, with the governing rule being that gain is the excess of amount realized over adjusted basis and that adjusted basis is cost with proper adjustments.

Rule. The retrieved text states: "Gain on the sale of property shall be the excess of the amount realized over the adjusted basis of the property. (IRC, section 1001.) The adjusted basis shall be the cost of property with proper adjustments made for." For a home, purchase side settlement fees and closing costs are included in total basis, except financing related costs, and selling expenses are subtracted from the sale price to produce the amount realized.

Application. On the facts given, adjusted basis is \$410,000 plus the \$6,200 of capitalized acquisition closing costs, or \$416,200. Amount realized is the \$468,000 sale price less the \$7,800 of selling costs, or \$460,200. Realized gain is \$44,000. No business use, depreciation or rental is stated, and no improvements, casualty losses or credits are stated, so no further adjustment under section 1016 is indicated on this record.

The facts do not itemize the \$6,200 or the \$7,800, so the character of those items rests on the firm's review of the two settlement statements. Comparing the \$44,000 gain to the reduced maximum exclusion computed under Issue 2, about \$297,260 combined, the gain is below the ceiling.

| Step                                          | Computation              | Amount    |
|-----------------------------------------------|--------------------------|-----------|
| Sale price                                    | Stated                   | \$468,000 |
| Less selling costs                            | Stated                   | (\$7,800) |
| Amount realized                               | \$468,000 less \$7,800   | \$460,200 |
| Purchase price                                | Stated                   | \$410,000 |
| Plus acquisition closing costs added to basis | Stated                   | \$6,200   |
| Adjusted basis                                | \$410,000 plus \$6,200   | \$416,200 |
| Realized gain                                 | \$460,200 less \$416,200 | \$44,000  |

Limitations on the rule. Publication 523 and Publication 551 are procedural sources and are proper support for the mechanics of the worksheet computation only. The governing rule is section 1001 and the basis sections. Publication 523 excludes financing related costs, such as seller paid points, from purchase basis, and excludes employer job transfer reimbursements from the sale price.

Conclusion and grade. The \$44,000 figure follows from the stated amounts under the worksheet mechanics, and it is below the reduced maximum exclusion computed under Issue 2. Grade: PROCEDURAL. The computation mechanics rest on a procedural source and on the firm's confirmation of the composition of the \$6,200 and \$7,800.

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## Conclusion

On the facts as given, the two year ownership and use test of section 121(a) is not met, the 61 mile differential satisfies the distance condition of Reg. 1.121-3(c)(2)(ii), and the reduced maximum exclusion computed under Reg. 1.121-3(g)(1) at 434 days over 730 days is about \$148,630 for each spouse, or about \$297,260 combined. The \$44,000 realized gain computed from the stated amounts is below that ceiling.

Two conditions in the regulation are not established by the facts supplied: that the change in place of employment occurred during the period of use as the principal residence, and that the employed spouse is a qualified individual under Reg. 1.121-3(f). The reporting of the sale on the 2025 Form 1040 is not settled by the authority retrieved and remains open. This memorandum is a draft for the firm's review and signature and is not advice to the client until the professional has validated it.

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## What the firm must confirm

Conditions the authority requires that the facts do not establish, and questions the retrieved authority did not settle:

- The date the taxpayers ceased using the home as their principal residence and moved to the rental, to confirm the change in place of employment occurred during the period of ownership and use required by Reg. 1.121-3(c)(2)(i). If the change occurred after they stopped using the home, the safe harbor does not apply and the facts and circumstances test of Reg. 1.121-3(b) and (c)(1) governs.
- That the spouse who changed employment is a qualified individual under Reg. 1.121-3(f), the text of which was not retrieved, including whether that spouse is an employee or self-employed, whether the former place of employment was held when the home was acquired in March 2024, and whether the new employment is with a new or the same employer.
- How the 9 mile and 70 mile distances were measured, with documentation of the measurement, the February 2025 offer, and the April 2025 start date.
- The exact closing dates on the 2024 purchase and 2025 sale settlement statements, to confirm the 434 day count used in the fraction. A difference of one day changes the fraction but not the conclusion on these figures.
- Whether the firm measures the numerator in days or in whole months, since the two measures produce different limits.
- Whether both spouses held legal title and the form of ownership, and the application of the ownership requirement to each spouse on a joint return under Reg. 1.121-2(a)(3)(ii).
- Whether either spouse made or revoked any prior section 121 election or excluded gain on any home sale at any time, beyond the stated two year lookback, which would shorten the numerator under the third period in Reg. 1.121-3(g)(1).

- The itemized detail of the \$6,200 of acquisition closing costs, to confirm that no part is points, loan origination or other financing charge excluded from basis, and the itemized detail of the \$7,800 of selling costs, to confirm each item is directly associated with the sale.
- Whether any seller credits, concessions, repair credits, or points paid by the seller were given at either closing, and whether any employer reimbursement in connection with the job change was received, since Publication 523 treats a job transfer reimbursement as wages rather than part of the sale computation.
- Whether any improvements, casualty losses, energy credits, or first time homebuyer credit adjustments affect adjusted basis, and whether either spouse had any absence or period of non principal residence use during the holding period.
- Open question not settled by the retrieved authority: how the sale is reported on the 2025 Form 1040, including whether a Form 1099-S was issued by the closing agent, whether a written certification of no information reporting was signed at closing, whether the sale must appear on Form 8949 and Schedule D when the gain is fully excluded, and the correct adjustment entry for the exclusion. Reg. 1.6045-4 and the 2025 Instructions for Form 8949 and Schedule D were not retrieved and must be read before filing.
- Open question not settled by the retrieved authority: the full text of Reg. 1.121-3, in particular paragraphs (b), (c), (f) and (g), should be read in the original before the position is signed, because portions of the regulation relevant to the qualified individual definition and the joint return mechanics were not in the retrieved set.
- State and local treatment. The facts do not state the state of residence or the state in which the home was located, and no state authority was retrieved, so no state analysis is provided.

## Authorities relied on

### 26 CFR § 1.121-3

• VERIFIED

*"A sale or exchange is deemed to be by reason of a change in place of employment (within the meaning of paragraph (c)(1) of this section) if, (i) The change in place of employment occurs during the period of the taxpayer's ownership and use of the property as the taxpayer's principal residence; and (ii) The qualified individual's new place of employment is at least 50 miles farther from the residence sold or exchanged than was the former place of employment"*

### 26 U.S.C. § 121

• CPA TO CONFIRM

Corroborating authority; not independently text-checked for this letter.

### IRS Publication 523

• PROCEDURAL

*"Gain on the sale of property shall be the excess of the amount realized over the adjusted basis of the property. (IRC, § 1001.) The adjusted basis shall be the cost of property with proper adjustments made for"*

### 26 CFR § 1.121-2

• CPA TO CONFIRM

Corroborating authority; not independently text-checked for this letter.

### IRS Publication 551

• CPA TO CONFIRM

Corroborating authority; not independently text-checked for this letter.

Research and drafting for a licensed professional. Every grade is an evidence label, not an eligibility ruling; the reviewing professional validates each conclusion before relying on it.