

Reg. Section 1.121-3(b)

Reduced maximum exclusion for taxpayers failing to meet certain requirements.

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(b) Primary reason for sale or exchange. In order for a taxpayer to claim a reduced maximum exclusion under section 121(c), the sale or exchange must be by reason of a change in place of employment, health, or unforeseen circumstances. If a safe harbor described in this section applies, a sale or exchange is deemed to be by reason of a change in place of employment, health, or unforeseen circumstances. If a safe harbor described in this section does not apply, a sale or exchange is by reason of a change in place of employment, health, or unforeseen circumstances only if the primary reason for the sale or exchange is a change in place of employment (within the meaning of paragraph (c) of this section), health (within the meaning of paragraph (d) of this section), or unforeseen circumstances (within the meaning of paragraph (e) of this section). Whether the requirements of this section are satisfied depends upon all the facts and circumstances. Factors that may be relevant in determining the taxpayer's primary reason for the sale or exchange include (but are not limited to) the extent to which --

- (1) The sale or exchange and the circumstances giving rise to the sale or exchange are proximate in time;
- (2) The suitability of the property as the taxpayer's principal residence materially changes;
- (3) The taxpayer's financial ability to maintain the property is materially impaired;
- (4) The taxpayer uses the property as the taxpayer's residence during the period of the taxpayer's ownership of the property;
- (5) The circumstances giving rise to the sale or exchange are not reasonably foreseeable when the taxpayer begins using the property as the taxpayer's principal residence; and
- (6) The circumstances giving rise to the sale or exchange occur during the period of the taxpayer's ownership and use of the property as the taxpayer's principal residence.

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