



Insight

A Tax Pox on Your Houses

JORDAN HARING, THOMAS KINGSLEY | JULY 28, 2025

Executive Summary

- Low housing inventory is the most significant single driver of elevated house prices, and Congress must examine the root causes impacting housing supply.
- President Trump recently indicated that his administration is “thinking about” removing capital gains taxes on home sales to jump-start the housing market; Representative Marjorie Taylor Greene (R-GA) has introduced a bill that echoes the president’s proposal: the No Tax on Home Sales Act.
- One particularly fertile avenue of exploration should be the tax treatment of home sales, which has not undergone meaningful review in nearly 30 years.
- Removing or amending the cap on the dollar amount that can be excluded in capital gains on the sale of primary residences could spur significant home sale activity, as this would counter the “stay-put penalty” disincentivizing many from leaving their homes.

Introduction

President Trump recently indicated that his administration is “thinking about” removing capital gains taxes on home sales to jump-start the housing market. Representative Marjorie Taylor Greene (R-GA) has introduced a bill that echoes the president’s proposal. The would remove the federal capital gains tax on the sale of primary residences. The bill joins recent legislative efforts, such as the [More Homes on the Market Act](#), to reform federal capital gains taxes in the context of home sales. Removing or amending the cap on the dollar amount that can be excluded from capital gains taxation on the sale of primary residences would likely produce mixed effects on housing supply, depending on the income bracket and mobility of homeowners.

Current Policy

Current federal tax law allows homeowners to exclude from their taxable income a portion of the capital gain (profit) from the sale of their primary residence. According to the most recent data, about 634,000 taxpayers pay capital gains taxes on their home sales each year, nearly 500,000 of whom pay capital gains on the sale of their primary residence. Under current law, single filers can exclude up to \$250,000 and couples can exclude up to \$500,000 in capital gains from home sales. Amounts above the exclusion limits are generally taxed at normal capital gains tax rates. The home sale exclusion limits were set in 1997 as part of the Taxpayer Relief Act of 1997 and have stayed frozen at those levels ever since. Had the exclusion amounts been adjusted annually for national home price growth, they would total about \$618,000 for singles and \$1.24 million for couples today. While many parts of the federal tax code are subject to an annual inflation adjustment, the limits on the home sale tax exclusion have not been updated to reflect changes in the cost of living, which has thus eroded the value of the tax relief provided by the exclusion over the past 28 years. As home prices have risen and the exclusion limits remain frozen, middle-class homeowners have been hit with capital gains taxes that were originally targeted toward the wealthy.

Policy Change

The No Tax on Home Sales Act would remove the current dollar limits (\$250,000 for singles and \$500,000 for couples) on the federal capital gains tax exclusion for the sale of a primary residence. That means sales of second homes, investment properties, or house flipping transactions would still be subject to the same level of taxation that exists under current law. The No Tax on Home Sales Act joins recent legislative measures to reform capital gains taxes in the context of home sales. Earlier this year, for example, Representative Jimmy Panetta (D-CA) introduced the More Homes on the Market Act that would double the maximum home sale tax exclusion amount to \$500,000 for singles and \$1 million for couples and would adjust the limits annually for inflation.

Implications

Removing the cap on the dollar amount that can be excluded from capital gains taxation on the sale of primary residences would likely produce mixed effects on housing supply, depending on the income bracket and mobility of homeowners. Eliminating this cap could create a stronger incentive for long-term homeowners – particularly in high-appreciation markets – to list their homes, potentially unlocking more existing housing stock in constrained areas. Yet it could also disproportionately benefit higher-income households that have seen the largest gains in housing equity and have the financial flexibility to delay or time sales for maximum tax advantage.

From a supply elasticity standpoint, the removal of the cap may provide marginal improvements in turnover among [older or wealthier homeowners](#), many of whom have delayed downsizing due to expected capital gains tax exposure. This improved mobility could free up larger homes in supply-strained, high-demand urban markets, potentially easing pressure on middle-income buyers. Still, the overall net increase in supply may be modest, as these households often represent a smaller share of the total housing stock. Moreover, in less expensive regions where appreciation is slower and gains rarely breach the current exclusion limit, the policy change may have negligible behavioral impact.

It's also important to consider the potential distortions such a change could introduce. A full exclusion without a cap may encourage speculative behavior in owner-occupied housing, effectively treating homes as [tax shelters and potentially exacerbating price inflation](#). Encouraging home purchase transactions with favorable tax treatment that is too generous may lead to tax arbitrage as the primary point of the transaction rather than an incentive. Additionally, if not paired with reforms to zoning or construction incentives, the supply-side benefits could be outweighed by upward pressure on demand. Policymakers should weigh the trade-offs carefully: While the change may increase listing activity at the top end of the market, the impacts on affordability may be net zero unless coupled with policies that facilitate new housing construction.

Conclusion

President Trump's recent assertion that his administration supports removing capital gains taxes on primary home sales builds on recent legislative efforts to do just that. Removing or amending the cap on the home sale tax exclusion would represent a reform to a policy that's been frozen in nominal dollars since 1997, despite significant changes in the cost of living since then. Such a policy change could spur significant home sale activity, thus countering the "stay-put penalty" disincentivizing many from leaving their homes. It could, however, function largely as a new tax arbitrage opportunity for the wealthy that does little to free up the housing supply.