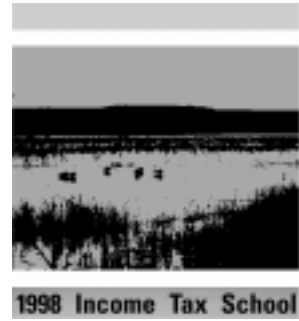


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SCHEDULE D (FORM 1040)— CAPITAL GAINS AND LOSSES

OVERVIEW

Under current law, an individual taxpayer's capital gains and losses are treated differently than ordinary income and losses.

First, there is a maximum tax rate for long-term capital gains that varies from 10% to 28% for different types of capital gains. This means that long-term capital gains are taxed at the same rate as other income unless the taxpayer's marginal income tax rate is greater than the applicable capital gain rate. For example, if the applicable capital gains rate is 20% and the taxpayer's marginal income tax rate is greater than 20%, then long-term capital gains that would otherwise be in a bracket higher than 20% are taxed at 20%.

Second, capital losses in excess of capital gains can reduce ordinary income by only \$3,000 per year. Capital losses in excess of that amount are carried forward to succeeding tax years and are treated the same as other capital losses that are realized that year.

Because of these special rules for capital gains and losses, they are reported on Schedule D (Form 1040) so that capital gains and capital losses can be netted and the resulting net gain or loss can be given the special treatment listed above.

CAPITAL GAINS AND LOSSES

The Internal Revenue Code sets out a complex set of rules that defines the transactions that are given capital gain or loss treatment. For some transactions, these rules require netting of gains and losses at several levels of the computation to determine the character of the gain or loss. Other transactions are netted only at the level of comparing capital gains and losses.

The tax forms do a masterful job of reducing the complex rules of the Internal Revenue Code to relatively simple steps that sort out capital gains and losses. This is accomplished by providing a separate form for reporting the various levels of the computation and carrying the result from one level to the form that computes the next level. Therefore, transactions that ultimately result in capital gains or losses may be initially reported on one of several different forms. **Schedule D (Form 1040) is used to gather up capital gains and losses from other forms as well as to report initially many of the transactions that create capital gains or losses.**

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TRANSACTIONS THAT ARE REPORTED ON SCHEDULE D (FORM 1040)

Most transactions that are initially reported on Schedule D (Form 1040) are sales or exchanges of **capital assets**.

Capital assets are defined in I.R.C. §1221 by listing the assets that are not capital assets. It states:

For purposes of this subtitle, the term "capital asset" means property held by the taxpayer (whether or not connected with his trade or business), but does not include—

- (1) *stock in trade of the taxpayer or other property of a kind which would properly be included in the inventory of the taxpayer if on hand at the close of the taxable year, or property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business;*
- (2) *property, used in his trade or business, of a character which is subject to the allowance for depreciation provided in section 167, or real property used in his trade or business;*
- (3) *a copyright, a literary, musical, or artistic composition, a letter or memorandum, or similar property, held by—*
 - (A) *a taxpayer whose personal efforts created such property,*
 - (B) *in the case of a letter, memorandum, or similar property, a taxpayer for whom such property was prepared or produced, or*
 - (C) *a taxpayer in whose hands the basis of such property is determined, for purposes of determining gain from a sale or exchange, in whole or part by reference to the basis of such property in the hands of a taxpayer described in subparagraph (A) or (B);*
- (4) *accounts or notes receivable acquired in the ordinary course of trade or business for services rendered or from the sale of property described in paragraph (1);*
- (5) *a publication of the United States Government (including the Congressional Record) which is received from the United States Government or any agency thereof, other than by purchase at the price at which it is offered for sale to the public, and which is held by—*
 - (A) *a taxpayer who so received such publication, or*
 - (B) *a taxpayer in whose hands the basis of such publication is determined, for purposes of determining gain from a sale or exchange, in whole or in part by reference to the basis of such publication in the hands of a taxpayer described in subparagraph (A).*

A sale or exchange occurs when a taxpayer transfers title to an asset to another person or entity and receives cash or other assets in exchange. If the taxpayer does not receive anything in exchange, the transfer is treated as a gift, which does not trigger reporting of capital gain or loss.

Exceptions. There are several exceptions to the rule that gain or loss must be recognized on the sale or exchange of property. For example:

- An exchange of property for similar property (I.R.C. §1031)
- An involuntary conversion of property if the proceeds are used to purchase similar property (I.R.C. §1033)
- The gain from the sale of a principal residence that qualifies for the personal residence exclusion (I.R.C. §121)

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Practitioner Note. Property used in a trade or business such as land, buildings, machinery and tools are technically not capital assets (I.R.C. §1221(2)), even though gain on sale of these assets can be given long-term capital gain treatment under I.R.C. §1231. Sale of these assets is generally reported on Form 4797, and any resulting capital gain is carried to Schedule D (Form 1040).

Other transactions that are reported on Schedule D (Form 1040) are:

- Gains (but not losses) from involuntary conversions (other than from casualty or theft) of capital assets not held for business or profit
- Capital gain distributions from investments in mutual funds, regulated investment companies, and real estate investment trusts
- Nonbusiness bad debt deductions

Long-Term Capital Gains Tax Rates

The 1997 Taxpayer Relief Act replaced the 28% cap on the tax imposed on long-term capital gains with a variety of rates. The rate that applies to a gain on a particular asset depends on the taxpayer's tax bracket, the length of time the asset was held, the type of property, and whether the gain is due to straight-line depreciation or an increase in the value of the asset.

The new rates are as follows:

20% and 10% Rates. Generally, the maximum income tax rate on capital gains is 20% for gains that would otherwise be in a tax bracket greater than 15%. The maximum income tax rate on capital gains that would otherwise be in the 15% bracket is 10%.

Example 1: 20% and 10% Rates. In 1998, Joan and Ray have \$25,000 of gain from capital assets held for more than a year and \$35,000 of taxable income other than those capital gains. Joan and Ray file a joint tax return. Since the 28% bracket begins at \$42,350 in 1998, \$7,350 ($\$42,350 - \$35,000$) of the capital gain would have been taxed at the 15% rate if it had not been capital gain. Therefore, the tax rate for that gain is 10%. The remaining \$17,650 ($\$25,000 - \$7,350$) of capital gain is taxed at 20%.

Note: 18% and 8% rates. For most assets held for more than five years, there is a 2% reduction in the general rates described above. Therefore, the rate is 18% for gain that would otherwise be in a tax bracket greater than 15% and 8% for gain that otherwise would have been taxed in the 15% bracket. **These rates are effective for sales after the year 2000.** However, the holding period must begin after 2000 in order for assets to qualify for the 18% rate. Therefore, the 18% rate will not be available until 2006.

25% rate. Some of the gain realized on the sale of land improvements such as buildings will be taxed at a 25% rate. This rate applies to the portion of the gain that results from straight-line depreciation.

Example 2: 25% rate. In 1998, Ace sells a building he had held for several years for \$80,000. The building cost \$60,000, and he has taken \$40,000 of depreciation on the building. Of that depreciation, \$5,000 is in excess of straight-line depreciation. Ace must divide the gain from the sale of the building into three parts.

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First, he will apply the IRC §1250 recapture rules.

Amount realized	\$ 80,000
Basis	(20,000)
Gain	\$ 60,000
Excess depreciation	\$ 5,000
Lesser of gain or excess depreciation	\$ 5,000

Second, he will calculate the gain subject to the 25% rate.

Gain	\$ 60,000
§1250 recapture	(5,000)
Remaining gain	\$ 55,000
Straight-line depreciation	\$ 35,000
Lesser of remaining gain or straight-line depreciation	\$ 35,000

Third, the remaining gain (if any) is subject to the 20% (10%) rate.

Gain	\$ 60,000
§1250 recapture	(5,000)
Gain subject to 25% rate	(35,000)
Gain subject to 20% (10%) rate	\$ 20,000

28% rate. A 28% maximum rate applies to gain from the sale of collectibles (works of art, rugs, antiques, metals, gems, stamps, coins, or alcoholic beverage) and to gain equal to the amount of gain excluded under IRC §1202(a) (50% of gain from certain small business stock). The 28% rate also applies to gain from collectibles that is passed through a partnership.

Practitioner Note. Under the 1997 Taxpayer Relief Act, the 28% rate also applied to capital assets held more than a year but not more than 18 months. **The 1998 Act eliminated the more than 18 month holding period and made the 28% rate applicable to only collectibles and §1202 gain.** Since the 1997 Act was effective for transactions after July 28, 1997, and the 1998 Act is effective for transactions after December 31, 1997, the 18 month holding period **still applies** to transactions between those dates.

COLUMN INSTRUCTIONS FOR PARTS I AND II

The following instructions apply to the columns for lines 1 through 16 of Schedule D (Form 1040).

COLUMN (a)—DESCRIPTION OF PROPERTY

For transactions that are initially reported on Schedule D (Form 1040), column (a) is used to describe the assets that were transferred.

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COLUMN (b)—DATE ACQUIRED

The information entered in this column varies according to the transaction that is being reported.

Stocks and Bonds Traded on an Exchange or Over-the-Counter Market

For stocks and bonds traded on an exchange or over-the-counter market, the date acquired is the **trade date** (not the settlement date) the stock or bond was purchased. **The trade date is the date the taxpayer contracted to buy the stock or bond.** The settlement date is the date the stock or bonds must be delivered and payment must be made. Most statements from brokerage companies will report both the trade and settlement dates.

Stock or Other Property Sold Short

Short sales can be confusing to report, because the sale occurred before the purchase. **Report the date the transaction was closed in column (b).** That is the date the stock or other property was delivered to close the transaction. In most cases, that will be the date the stock or other property was purchased. **See Example 3 below.**

Property Acquired by Inheritance

Property that was acquired by inheritance is treated as being held for the long-term capital gains holding period, regardless of the actual time it was held [I.R.C. §1223(11)]. Therefore, the sale of this property will always be reported on line 8 of Schedule D (Form 1040). No date needs to be entered in column (b), since the actual holding period does not matter. **Instead, write “INHERITED” in column (b).**

Block of Stock

If the taxpayer sells a block of stock that is made up of stock that was acquired on various dates, “VARIOUS” can be entered in column (b).

Practitioner Note. If some of the stocks in the block were held for the short-term holding period and others were held for the long-term holding period, the stocks must be sorted according to the holding period and the sales reported on line 1 or line 8 of Schedule D (Form 1040), respectively.

COLUMN (c)—DATE SOLD

The date stocks and bonds are sold on an exchange or over-the-counter market is the **trade date—the date the taxpayer contracted to sell the stocks or bonds.**

Stock or Other Property Sold Short

As noted above, reporting short sales can be confusing since the sale occurs before the purchase. **The date sold is the date the transaction was opened by selling borrowed property.**

Example 3: Stocks Sold Short. Darlene Welch sold short 500 shares of ABC, Inc., stock on March 1, 1998, for \$100 per share. She closed the transaction on October 15, 1998, by purchasing 500 shares of ABC, Inc. for \$75 per share (including the fees she paid for buying and selling the shares). The transactions are reported on Darlene’s 1998 Schedule D (Form 1040), as shown in Figure 1.

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Figure 1

SCHEDULE D (Form 1040) **Capital Gains and Losses** OMB No. 1545-0074
 Department of the Treasury Internal Revenue Service (99) **1998** Attachment Sequence No. 12
 Name(s) shown on Form 1040: Darlene Welch Your social security number: 003 01 1040

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

(a) Description of property (Example: 100 sh XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-3)	(e) Cost or other basis (see page D-4)	(f) Gain or (g) Loss (Subtract (e) from (d))
¹ 500 shrs ABC Inc.	10/15/98	3/1/98	50,000	37,500	12,500
2 Enter your short-term totals of any from Schedule D-1, line 12					2
3 Total short-term sales price amounts. Add column (d) of lines 1 and 2					3
4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8882					4
5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) 1					5
6 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your 1997 Capital Loss Carryover Worksheet					6 ()
7 Net short-term capital gain or (loss). Combine lines 1 through 6 in column (f)					7

Practitioner Note. Some tax form preparation software may not allow you to enter a sale date that is earlier than the acquisition date. **In that case, you must use the override feature or other means to enter the proper date.**

COLUMN (d)—SALES PRICE

Special care must be taken when entering figures in column (d), because the IRS matches the total amount reported in column (d), lines 3 and 10 of Schedule D (Form 1040) with the amounts that are reported on Forms 1099-B.

Practitioner Note. Since the IRS matches the amounts reported on Schedule D (Form 1040) with the amounts reported on Form 1099-B, it is imperative to report every amount from Form 1099-B on Schedule D (Form 1040)—**even if the taxpayer does not owe taxes on the amount.** If taxes are not owed, another offsetting entry should be made, for example, in column (e) of Schedule D (Form 1040).

In most cases, the amount to report in column (d) is the gross amount received from the sale of the asset. **The exception to that rule applies when the amount reported on Form 1099-B is the gross sales price reduced by commissions, option premiums, or other costs.** In that case, the net sales price should be reported in column (d), Schedule D (Form 1040), and the costs that were netted out **should not** be reported in column (e) of Schedule D (Form 1040).

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COLUMN (e)—COST OR OTHER BASIS

Basis is a fundamental term in income taxation. It is a measure of the amount the taxpayer has invested in an asset for income purposes. The primary function of basis is to measure the amount of gain or loss the taxpayer realizes upon sale of the asset. It is also used to calculate depreciation on assets for which depreciation can be claimed.

It is useful to think of basis as the taxpayer's cost of acquiring the property, but it is important to remember that basis is good for the taxpayer. The more basis, the **less gain** or the **more loss** the taxpayer can report on transfer of an asset. Therefore, while basis is generally painful to acquire because the taxpayer has to pay for it, it is good to have because it will reduce taxes that have to be paid.

The concept of basis for income tax purposes is complicated, because there are a variety of ways in which basis is established when an asset is acquired and increased or decreased after it is acquired. (For more information on basis, see IRS Pub. 551, **Basis of Assets**.)

Beginning Basis

The most commonly applied rules for establishing basis at the time an asset is acquired are as follows.

1. For property that is purchased, the beginning basis is the **purchase price**, including commissions or costs incurred to make the purchase. [I.R.C. §1012.]

Example 4: Cost Basis. Vernon Spooner paid \$10.20 per share for 100 shares of XYZ stock. He also paid his broker a \$50 fee for executing the transaction. Vernon's basis in the 100 shares is $(\$10.20 \times 100) + \$50 = \$1,070$, which is \$10.70 per share.

2. Generally, for property that is received by **gift**, the beginning basis is the donor's basis in the property, increased by any gift taxes that were paid that are allocable to the appreciation in the value of the property. [I.R.C. §1015.]

Example 5: Basis of Property Received by Gift. Gloria Hyslop gave her piano to her son, Clarence, when it was worth \$15,000. She paid \$10,000 for the piano when she bought it several years ago. She owed \$2,100 of gift tax on the gift. Clarence's basis in the piano is calculated as follows:

Carryover basis from Gloria	\$10,000
Plus gift tax attributable to appreciation $\$2,100 \times \$5,000 \div \$15,000$	700
Clarence's basis	\$10,700

3. For property that is received as an **inheritance**, the basis is generally the fair market value of the property **on the decedent's date of death**. [I.R.C. §1014.]

Example 6: Basis of Property Received by Inheritance. Assume Clarence in Example 5 above had received the piano upon Gloria's death and that it was worth \$15,000. His basis in the piano would be \$15,000.

4. For property that is acquired in a **tax-free exchange of property**, the basis is the basis of the property that was given up in the exchange, plus any money that was paid for the property acquired and any gain that was recognized on the exchange, minus any money that was received or loss that was recognized in the transaction. [I.R.C. §§1031(d), 1033(b) and 1034(e).]

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Example 7: Basis of Property Received in Like-Kind Exchange. Cindy Axelrod exchanged Whiteacre and \$10,000 for Blackacre. Before the exchange, her income tax basis in Whiteacre was \$65,000. The exchange qualified as an I.R.C. §1031 like-kind exchange, and no gain was recognized on the exchange. Cindy's basis in Blackacre is \$75,000.

Adjustments to Basis

The most common rules for adjusting basis after property is acquired are as follows.

1. Basis is reduced by any depreciation that is or **could have been** claimed on the property. [I.R.C. §1016(a)(2).]

Example 8: Basis Reduced by Depreciation. Gary Jones purchased \$10,000 of office furniture in 1998 and properly claimed \$1,071 of depreciation for the year. Gary's basis in the furniture is reduced by the \$1,071 of depreciation.

2. Basis is increased by the cost of **any capital improvements** to the property.

Example 9: Basis Increased by Improvements. Patty Littel spent \$90,000 on an addition to her office building. That \$90,000 is added to her basis in the building.

3. Basis is decreased by **nontaxable** returns of capital.

Example 10: Basis Decreased by Nontaxable Return of Capital. Tyrone Greive received \$100 from the DEF Mutual Fund as a nontaxable return of capital. Tyrone's basis in his DEF shares is reduced by \$100.

4. Basis of an original issue discount debt instrument is **increased** by the amount of original issue discount interest **that has been recognized as income**.

Example 11: Basis Increased by Original Issue Discount Interest. In 1998, Ellen Roecker paid \$3,600 for a bond that has a face value of \$10,000 and matures in 2003. For 1998, she received a Form 1099-OID showing \$700 of OID interest. She reported the interest as income on her 1998 tax return. **Her basis in the bond at the end of 1998 is \$4,300.**

5. Basis is increased by any costs incurred in selling an asset, such as broker's fees, commissions, option premiums, or state and local taxes. **However**, if any costs of selling the asset were subtracted from the gross sales price that was reported in column (d) of Schedule D (Form 1040), then those costs should not be added to the basis that is reported in column (e) of Schedule D (Form 1040).

Example 12: Basis Increased by Broker's Fees. Bryant Ford purchased 100 shares of GHI stock in 1995 for \$5,000. He sold the stock in 1998 for \$7,000 and paid his broker a \$150 fee. Bryant's basis for calculating his gain on the sale is \$5,150.

Basis of Mutual Fund Shares

If a taxpayer acquires shares in a mutual fund at **various times and prices**, he or she has four options to determine basis of shares that are sold.

1. Specific share identification
2. First-in first-out (FIFO)
3. Average cost basis—single-category method or
4. Average cost basis—double-category method

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Specific Share Identification. The adjusted basis of the particular shares that are sold can be used if the following requirements are satisfied:

1. The taxpayer gave written notification and instructions to the mutual fund informing the fund to sell shares that the taxpayer bought on a particular date and at a particular purchase price, **and**
2. The taxpayer received confirmation in writing from the mutual fund acknowledging the notification and instructions.

Example 13: Basis of Mutual Fund Shares—Specific Share Identification. Randy Hecox bought 1,000 shares of MNO Mutual Fund on February 3, 1995, for \$20 per share. There was no commission on his purchase. He elected to reinvest any distributions that he received from the mutual fund. His distributions were as follows.

Date	Type	Amount of Distribution	Price of Shares	Number of Shares Purchased
Dec. 31, 1995	Dividend	\$ 940	\$ 21	44.76
Dec. 31, 1995	Short-term capital gain	54	21	2.57
Dec. 31, 1995	Long-term capital gain	137	21	6.52
Dec. 31, 1996	Dividend	987	19	51.95
Dec. 31, 1996	Long-term capital gain	155	19	8.16
Dec. 31, 1996	Nontaxable return of capital	314	19	16.53
Dec. 31, 1997	Dividend	1,075	22	48.86
Dec. 31, 1997	Short-term capital gain	95	22	4.32
Dec. 31, 1997	Long-term capital gain	204	22	9.27
Total		\$3,961		192.94

On June 14, 1998, Randy sold 75 shares of MNO Mutual Fund for \$21 per share.

If Randy instructed the mutual fund to sell the 62.45 shares he received on December 31, 1997 and 12.55 shares of the shares he received on December 31, 1995, and received a written confirmation of those instructions, he can use his basis in those shares to calculate his gain or loss on the sale. This method gives him no long-term gain or loss on the 12.55 shares he received on December 31, 1995, and a \$62.45 loss on the 62.45 shares he received on December 31, 1997 as shown on Schedule D in Figure 2.

Practitioner Note. Randy should keep records showing that he sold all of his shares acquired on December 31, 1997 and 12.55 of the shares he acquired on December 31, 1995.

First-In First-Out (FIFO). The basis of the shares sold can be determined by using the FIFO method if the taxpayer wants to use this method. This method treats the shares sold as the oldest owned by the taxpayer at the time of the sale.

Example 14: Basis of Mutual Fund Shares—First-In First-Out (FIFO). Assume the same facts as in Example 13 above, except that Randy did not instruct the mutual fund to sell specific shares of stock. His sale of 75 shares can be reported using the FIFO method to determine his basis in the shares of stock sold. This method gives him a \$75 long-term gain on the shares sold, as shown on Schedule D in Figure 3.

Practitioner Note. Randy should keep records showing that he sold 75 of the shares acquired on February 3, 1995.

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Average Cost Basis—Single-Category Method. A taxpayer can simply use the average cost of all the shares he or she owns at the time part or all of the shares are sold. Once a taxpayer elects to use this method, **he or she must continue to use this method for the sale of all shares in the same mutual fund.**

Example 15: Basis of Mutual Fund Shares—Average Cost Basis—Single-Category Method. Assume the same facts as in Example 13 above, except that Randy elects to use the average cost basis-single category method for determining his basis in the shares sold.

To find his average basis, add his original investment to the sum of the distributions that he reported in income and divide the result by the total number of shares that he owns. Since the \$314 nontaxable return of capital was not reported as income, that amount is **not included** in his basis. Therefore, his average basis is calculated as follows:

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Figure 2—Specific Share Identification

SCHEDULE D (Form 1040)		Capital Gains and Losses					OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service (99)		▶ Attach to Form 1040. ▶ See Instructions for Schedule D (Form 1040).					1998	
Name(s) shown on Form 1040		▶ Use Schedule D-1 for more space to list transactions for lines 1 and 8.					Attachment Sequence No. 12	
Randy Hecox							Your social security number 003 02 1040	
Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less								
(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-3)	(e) Cost or other basis (see page D-4)	(f) GAIN or (LOSS) Subtract (e) from (d)	(g) 28% RATE GAIN * or (LOSS) (see instr. below)		
1 62.45 sh. MNO Co.	12/31/97	6/14/98	1,311 45	1,273 90	(62.45)			
2 Enter your short-term totals (if any) from Schedule D-1, line 2			2					
3 Total short-term sales price amounts. Add column (d) of lines 1 and 2			3					
4 Short-term gain from Form 6252 and short-term gain (loss) from Forms 4684, 6781, and 8109					4			
5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1					5			
6 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your 1997 Capital Loss Carryover Worksheet					6			
7 Net short-term capital gain or (loss). Combine lines 1 through 6 in column (f).					7			
Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year								
(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-3)	(e) Cost or other basis (see page D-4)	(f) GAIN or (LOSS) Subtract (e) from (d)	(g) 28% RATE GAIN * or (LOSS) (see instr. below)		
8 2.55 sh. MNO Co.	12/31/95	6/14/98	263 55	263 55	- 0 -			

Figure 3—First-In First-Out

SCHEDULE D (Form 1040)		Capital Gains and Losses					OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service (99)		▶ Attach to Form 1040. ▶ See Instructions for Schedule D (Form 1040).					1998	
Name(s) shown on Form 1040		▶ Use Schedule D-1 for more space to list transactions for lines 1 and 8.					Attachment Sequence No. 12	
Randy Hecox							Your social security number 003 02 1040	
Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year								
(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-3)	(e) Cost or other basis (see page D-4)	(f) GAIN or (LOSS) Subtract (e) from (d)	(g) 28% RATE GAIN * or (LOSS) (see instr. below)		
8 5 sh. MNO Co.	2/3/95	6/14/97	1,575 00	1,500 00	75 00			

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Original investment		\$ 20,000
Taxable distributions		
Total distributions	3,961	
Nontaxable distributions	<u>- 314</u>	<u>3,647</u>
Total basis		\$ 23,647
Total shares owned		<u>÷ 1,192.94</u>
Average basis per share		\$ 19.82

Randy's sale is reported on Schedule D (Form 1040) as shown in Figure 4.

Practitioner Note. The FIFO method is used to determine the holding period of the shares sold, even though the average cost basis is used to determine the basis of the shares sold. Therefore, Randy should keep a record of the purchase date of the remaining shares he owns after this sale of 75 of the 1,000 shares he purchased of February 3, 1995.

Observation. The basis in Randy's remaining shares does not have to be recomputed until he acquires new shares, since the average cost of shares will not change until he acquires new shares.

Average Cost Basis—Double-Category Method. This method of determining the basis in the shares sold **requires the taxpayer to divide all shares owned at the time of sale into two categories: short-term and long-term.** The average basis for the shares in each category is then calculated.

If the taxpayer specifies the category from which a sale is made, and the mutual fund sends a written confirmation of those instructions, then the average basis of that category is used to calculate gain or loss. If the taxpayer does not specify a category, then the shares sold are first treated as coming from long-term shares.

Example 16: Basis of Mutual Fund Shares—Average Cost Basis—Double-Category Method. Assume the same facts as in Example 13 above, except that Randy elects to use the average cost basis–double-category method for determining his basis in the shares sold and that he told the mutual fund that he was selling all of his 62.45 short-term shares and 12.55 of his long term shares.

Randy's average basis in his **short-term** shares is \$22, since all of his short-term shares were acquired at that basis.

To find his average basis in the **long-term** category, add his original investment to the sum of the distributions that he reported in income for long-term shares and divide the result by the total number of long-term shares that he owns. Since the \$314 nontaxable return of capital was not reported as income, that amount is not included in his basis. Therefore, his average long-term basis is calculated as follows:

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Figure 4—Average Cost Basis—Single-Category Method

SCHEDULE D (Form 1040)		Capital Gains and Losses				OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service (99)		▶ Attach to Form 1040. ▶ See instructions for Schedule D (Form 1040).		▶ Use Schedule D-1 for more space to list transactions for lines 1 and 8.		1998 Attachment Sequence No. 12	
Name(s) shown on Form 1040 <i>Randy Hecox</i>						Your social security number <i>003 02 1040</i>	
Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year							
(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-3)	(e) Cost or other basis (see page D-4)	(f) GAIN or (LOSS) Subtract (e) from (d)	(g) 28% RATE GAIN * or (LOSS) (see instr. below)	
<i>75 sh. MNO Co.</i>	<i>2/3/95</i>	<i>6/14/98</i>	<i>4,400.00</i>	<i>3,964.00</i>	<i>436.00</i>		

Original investment		\$ 20,000
Taxable distributions		
Total distributions	2,587	
Nontaxable distributions	- 314	2,273
Total basis		\$ 22,273
Total shares owned		÷ 1,130.49
Average basis per share		\$ 19.70

Randy's sale is reported on Schedule D (Form 1040) as shown in Figure 5.

Practitioner Note. The FIFO method is used to determine which of the long-term shares are sold. Therefore, Randy should keep a record of the purchase date of the remaining long-term shares he owns after this sale of 12.55 of the 1,000 shares he purchased on February 3, 1995.

Observation. If Randy had not specified the sale of his 62.45 short-term shares, all 75 shares would be long-term shares with a basis of \$19.70 per share. Consequently, he would have \$97.50 long-term gain instead of \$62.45 short-term loss and \$16.31 long-term gain.

COLUMN (f)—GAIN OR (LOSS)

If the amount in column (d) of Schedule D (Form 1040) is greater than the amount in column (e) of Schedule D (Form 1040), then the difference is reported in column (f) of Schedule D (Form 1040) as a gain. If the amount in column (e) of Schedule D (Form 1040) is greater than the amount in column (d) of Schedule D (Form 1040), then the difference is reported in column (f) of Schedule D (Form 1040) as a loss—that is, it is reported in brackets.

COLUMN (g)—28% RATE GAIN OR (LOSS)

Column (g) is used to report gain that is subject to the 28% maximum capital gains rate. Beginning with taxable transactions January 1, 1998, the 28% rate no longer applies to long-term capital gains on assets held 18 months or less. It only applies to long-term capital gains on collectibles (works of art, rugs, antiques, metals, gems, stamps, coins, or alcoholic beverage) and to gain equal to the amount of gain

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excluded under I.R.C. §1202(a) (50% of gain from certain small business stock). The 28% rate also applies to gain from collectibles that is passed through a partnership.

PART I: SHORT-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD ONE YEAR OR LESS

Short-term capital gains and losses are reported in Part I of Schedule D (Form 1040). They are defined as gains (I.R.C. §1222(1)) and losses (I.R.C. §1222(2)) from the sale or exchange of capital assets held **not more than one year**.

Figure 5—Average Cost Basis—Double-Category Method

SCHEDULE D (Form 1040)		Capital Gains and Losses				OMB No. 1545-0074 1998 Attachment Sequence No. 12	
Department of the Treasury Internal Revenue Service (998)		▶ Attach to Form 1040. ▶ See Instructions for Schedule D (Form 1040).		▶ Use Schedule D-1 for more space to list transactions for lines 1 and 8.		Your social security number	
Name(s) shown on Form 1040		<i>Randy Hecox</i>				<i>003 02 1040</i>	
Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less							
(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-3)	(e) Cost or other basis (see page D-4)	(f) GAIN or (LOSS) Subtract (e) from (d)	(g) 28% RATE GAIN or (LOSS) (see instr. below)	
<i>62.45 sh. MNOC</i>	<i>12/31/97</i>	<i>6/14/98</i>	<i>1,311.45</i>	<i>1,249.00</i>	<i>62.45</i>		
2 Enter your short-term totals of any from Schedule D-1, line 2.		2					
3 Total short-term sales price amounts. Add column (d) of lines 1 and 2.		3					
4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8821.		4					
5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) 1.		5					
6 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your 1997 Capital Loss Carryover Worksheet.		6					
7 Net short-term capital gain or (loss). Combine lines 1 through 6 in column (f).		7					
Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year							
(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-3)	(e) Cost or other basis (see page D-4)	(f) GAIN or (LOSS) Subtract (e) from (d)	(g) 28% RATE GAIN or (LOSS) (see instr. below)	
<i>255 sh. MNO Co.</i>	<i>2/3/95</i>	<i>6/14/98</i>	<i>263.55</i>	<i>247.24</i>	<i>16.31</i>		

Practitioner Note. The day an asset is acquired is **not included** in the holding period. The day the asset is sold or exchanged is **included** in the holding period. Therefore, if an asset was acquired on July 6, 1997, and transferred on July 6, 1998, it was not held for more than a year. If it was transferred on July 7, 1998, it was held for more than a year.

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LINE 1—SALE OR EXCHANGE OF SHORT-TERM CAPITAL GAIN OR LOSS ASSETS

Line 1 of Schedule D (Form 1040) is the catch-all line to report the sale or exchange of any capital asset that is held for one year or less and is not reported on another form. If there is not enough room to report all short-term capital gain transactions on line 1, transactions can be reported on line 1 in Part I of Schedule D-1 (Form 1040). See the following discussion of Schedule D-1.[Figure 6]

LINE 2—TOTALS FROM LINE 2 OF SCHEDULE D-1 (FORM 1040)

The total of line 1, column (d) (“Sales price”) of Schedule D-1 (Form 1040), shown in Figure 6, is reported on line 2 of Schedule D-1 (Form 1040) and then carried to line 2, column (d) of Schedule D (Form 1040). Similarly, the net gain or loss of the items reported in column (f) of line 1, Schedule D-1 (Form 1040) is reported on line 2 of Schedule D-1 (Form 1040) and then carried to line 2 of Schedule D (Form 1040).

LINE 3—TOTAL SHORT-TERM SALES PRICE AMOUNTS

The total of the sales prices reported for all of the transactions on line 1 of Schedule D (Form 1040) and line 2 of Schedule D-1 (Form 1040) is reported on line 3 of Schedule D (Form 1040). The IRS compares this amount with the amounts reported on Forms 1099-B to see whether the taxpayer has reported all of the sales of short-term capital gains assets for the year.

LINE 4—SHORT-TERM GAINS AND LOSSES FROM OTHER FORMS

Short-term gains and losses from transactions that were initially reported on several other forms are reported on line 4 of Schedule D (Form 1040). These transactions were reported on other forms because of special rules that apply to the transactions.

Installment Sales

Installment sales are reported on Form 6252, Installment Sale Income. Form 6252 calculates the portion of the gain that is reported each year of an installment sale and the portion of the gain that is capital gain. **Only gains are reported on the installment basis.** A short-term loss on an installment sale of a capital asset should be reported on line 1 of Schedule D (Form 1040).

Example 17: Installment Sale of Short-Term Asset. On June 20, 1998, Ben Dealing bought a home run ball hit by Mark McGwire on May 12, 1998, for \$75,000. On September 10, 1998 (two days after McGwire broke Roger Maris’ single-season home run record and before Sammy Sosa broke Maris’ record), he sold it for \$100,000 on an installment contract. Under the terms of the contract, Ben was paid \$20,000 at the time of the sale and will be paid \$20,000 plus interest on the unpaid balance on September 15 of the next four years.

Ben must use Form 6252 to calculate his short-term installment gain for 1998, and he must carry that gain to line 4 of Schedule D (Form 1040), as shown in Figure 7.

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Figure 6

SCHEDULE D-1
(Form 1040)
Department of the Treasury
Internal Revenue Service (99)

Continuation Sheet for Schedule D
(Form 1040)
▶ See instructions for Schedule D (Form 1040).
▶ Attach to Schedule D if you need more space to list transactions for lines 1 and 8.

OMB No. 1545-0074
1998
Attachment
Sequence No. 12A

Name(s) shown on Form 1040
Your social security number

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-3)	(e) Cost or other basis (see page D-4)	(f) GAIN or (LOSS) (Enter (e) from (d))
1					

Figure 7

Form **6252**
Department of the Treasury
Internal Revenue Service
Name(s) shown on return: *Ben Dealing*

Installment Sale Income
▶ See separate instructions. ▶ Attach to your tax return.
▶ Use a separate form for each sale or other disposition of property on the installment method.

OMB No. 1545-0228
1998
Attachment
Sequence No. 79

Identifying number
003-14-6252

1 Description of property ▶ *Souvenir Baseball*

2a Date acquired (month, day, year) ▶ *06/20/98* b Date sold (month, day, year) ▶ *09/15/98*

3 Was the property sold to a related party after May 14, 1980? See instructions. If "No," skip line 4 Yes No

4 Was the property you sold to a related party a marketable security? If "Yes," complete Part III. If "No," complete Part III for the year of sale and the 2 years after the year of sale Yes No

Part I Gross Profit and Contract Price. Complete this part for the year of sale only.

5 Selling price including mortgages and other debts. Do not include interest whether stated or unstated	5	100,000
6 Mortgages and other debts the buyer assumed or took the property subject to, but not new mortgages the buyer got from a bank or other source	6	
7 Subtract line 6 from line 5	7	100,000
8 Cost or other basis of property sold	8	75,000
9 Depreciation allowed or allowable	9	
10 Adjusted basis. Subtract line 9 from line 8	10	75,000
11 Commissions and other expenses of sale	11	
12 Income recaptured from Form 4797, Part III. See instructions	12	
13 Add lines 10, 11, and 12	13	75,000
14 Subtract line 13 from line 5. If zero or less, stop here. Do not complete the rest of this form	14	25,000
15 If the property described on line 1 above was your main home, enter the amount of your excluded gain. Otherwise, enter -0-. See instructions	15	-0-
16 Gross profit. Subtract line 15 from line 14	16	25,000
17 Subtract line 13 from line 6. If zero or less, enter -0-.	17	-0-
18 Contract price. Add line 7 and line 17	18	100,000

Part II Installment Sale Income. Complete this part for the year of sale and any year you receive a payment or have certain debts you must treat as a payment on installment obligations.

19 Gross profit percentage. Divide line 16 by line 18. For years after the year of sale, see instructions	19	25,00
20 For year of sale only: Enter amount from line 17 above; otherwise, enter -0-.	20	-0-
21 Payments received during year. See instructions. Do not include interest whether stated or unstated	21	20,000
22 Add lines 20 and 21	22	20,000
23 Payments received in prior years. See instructions. Do not include interest whether stated or unstated	23	-0-
24 Installment sale income. Multiply line 22 by line 19	24	5,000
25 Part of line 24 that is ordinary income under recapture rules. See instructions	25	-0-
26 Subtract line 25 from line 24. Enter here and on Schedule D or Form 4797. See instructions	26	5,000

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Figure 7

SCHEDULE D (Form 1040) **Capital Gains and Losses** OMB No. 1545-0074
 Department of the Treasury Internal Revenue Service (99) **1998** Attachment Sequence No. 12
 ▶ Attach to Form 1040. ▶ See Instructions for Schedule D (Form 1040).
 ▶ Use Schedule D-1 for more space to list transactions for lines 1 and 8.

Name(s) shown on Form 1040: **Ben Dealing** Your social security number: **003 14 6252**

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-3)	(e) Cost or other basis (see page D-4)	(f) GAIN (or LOSS) Contract	(g) GAIN (or LOSS) from (d)
1						
4	Short-term gain from Form 6252 and short-term gain (or loss) from Forms 4684, 6781, and 682				4	5,000
5	Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) 1				5	

Casualties and Thefts

Casualties and thefts are reported on Form 4684, Casualties and Thefts. Gains and losses from property that is **not** used in a trade or business or held for investment are reported in Part A of Form 4684. If there is a net gain from Part A, that gain is reported on Schedule D (Form 1040), but it must first be sorted into short- and long-term gains and losses. If there is a net loss from Part A, the loss in excess of 10% of adjusted gross income is reported on Schedule A (Form 1040).

Example 18: Casualty Gains and Losses. On October 20, 1998, Ima Mover was taking her antique dining room set to her daughter and was involved in a collision that totaled her pick-up and the dining room set. Her grandmother had given her the dining room set 20 years ago, and Ima had purchased the pick-up for \$8,000 on March 1, 1998. Ima's carryover basis in the dining room set was \$1,100. Ima had insurance on the dining room set and received a check for \$16,500 from the insurance company. She did not have insurance on her pick-up and did not collect from the other driver. The pick-up was worth \$8,000 at the time of the collision.

Ima must report the loss from the pick-up and the gain from the dining room set in Part A of Form 4684. Since Ima has a net gain from casualties of personal use property for 1998, she reports her \$7,900 short-term loss from the pick-up and her \$15,400 long-term gain from the dining room set on Schedule D (Form 1040), as shown in Figure 8.

Practitioner Note. Even though there is a net gain from Part A of Form 4684, there may be either a net short-term loss or net long-term loss to report on Schedule D (Form 1040).

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Figure 8

Form **4684**

Casualties and Thefts

OMB No. 1545-0177

1997 98

Attachment
Sequence No. 26

Department of the Treasury
Internal Revenue Service

▶ See separate instructions.
▶ Attach to your tax return.
▶ Use a separate Form 4684 for each different casualty or theft.

Name(s) shown on tax return

Imd Mover

Identifying number
003 18 4684

SECTION A—Personal Use Property (Use this section to report casualties and thefts of property not used in a trade or business or for income-producing purposes.)

1 Description of properties (show type, location, and date acquired for each):

Property A Pick-up acquired 3/21/98
 Property B Antique dining room set acquired 11/12/79
 Property C _____
 Property D _____

		Properties (Use a separate column for each property lost or damaged from one casualty or theft.)				
		A	B	C	D	
2	Cost or other basis of each property	8,000	1,100			
3	Insurance or other reimbursement (whether or not you filed a claim). See instructions <i>Note: If line 2 is more than line 3, skip line 4.</i>	-0-	16,500			
4	Gain from casualty or theft. If line 3 is more than line 2, enter the difference here and skip lines 5 through 9 for that column. See instructions if line 3 includes insurance or other reimbursement you did not claim, or you received payment for your loss in a later tax year		15,400			
5	Fair market value before casualty or theft	8,000				
6	Fair market value after casualty or theft	-0-				
7	Subtract line 6 from line 5	8,000				
8	Enter the smaller of line 2 or line 7	8,000				
9	Subtract line 3 from line 8. If zero or less, enter -0-	8,000				
10	Casualty or theft loss. Add the amounts on line 9. Enter the total	8,000				
11	Enter the amount from line 10 or \$100, whichever is smaller	100				
12	Subtract line 11 from line 10 <i>Caution: Use only one Form 4684 for lines 13 through 18.</i>	7,900				
13	Add the amounts on line 12 of all Forms 4684	7,900				
14	Combine the amounts from line 4 of all Forms 4684	15,400				
15	<ul style="list-style-type: none"> • If line 14 is more than line 13, enter the difference here and on Schedule D. Do not complete the rest of this section (see instructions). • If line 14 is less than line 13, enter -0- here and continue with the form. • If line 14 is equal to line 13, enter -0- here. Do not complete the rest of this section. 	7,500				
16		If line 14 is less than line 13, enter the difference				
17		Enter 10% of your adjusted gross income (Form 1040, line 33). Estates and trusts, see instructions				
18	Subtract line 17 from line 16. If zero or less, enter -0-. Also enter result on Schedule A (Form 1040), line 19. Estates and trusts, enter on the "Other deductions" line of your tax return					

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Figure 8

SCHEDULE D (Form 1040) Capital Gains and Losses
 OMB No. 1545-0074
1998
 Attachment Sequence No. 12
 Department of the Treasury Internal Revenue Service (99)
 ▶ Attach to Form 1040. ▶ See instructions for Schedule D (Form 1040).
 ▶ Use Schedule D-1 for more space to list transactions for lines 1 and 8.
 Name(s) shown on Form 1040: *Ima Mover* Your social security number: *003 18 4684*

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

4	Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824	4	<i><7,900></i>	
5	Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) 511	5		

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-3)	(e) Cost or other basis (see page D-4)	(f) GAIN or (LOSS) Subtract (e) from (d)	(g) 28% RATE GAIN or (LOSS) * (see instr. below)
8						
9	Enter your long-term totals, if any, from Schedule D-1, line 9		9			
10	Total long-term sales price amounts. Add column (d) of lines 8 and 9		10			
11	Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824		11	<i>15,400</i>		

Gains and losses from a casualty or theft of property used in a trade or business or held for investment are reported in Part B of Form 4684. Any capital gains or losses from these casualties and thefts are carried to Form 4797 and netted with other I.R.C. §1231 gains and losses. If that netting results in capital gains, they are carried to line 11 of Schedule D (Form 1040). No gains or losses from Part B of Form 4684 will be reported on line 4 of Schedule D (Form 1040).

Gains and Losses from Regulated Futures Contracts and Other Transactions

Gains and losses from regulated futures contracts, foreign currency contracts, non-equity options, and dealer equity options are reported on Form 6781, Gains and Losses from Section 1256 Contracts and Straddles. Form 6781 sorts gains and losses from these transactions into short- and long-term capital gains and losses. Those gains and losses are then reported on line 4 and line 11 of Schedule D (Form 1040), respectively.

Example 19: Gains from Form 6781. Ed Farmer bought two call options for March 1999 wheat in July 1998 after he had sold his 1998 wheat crop to the elevator. Ed thought that the price of wheat would increase, and he wanted to be able to profit if it did. He paid \$2,500 for the premium and the commission charge in July, 1998.

The price of wheat did increase. As of December 31, 1998, the two open call option contracts were worth \$3,700. This is a speculative transaction, because it is a long position. Ed bought the two call option contracts because he thought the price of wheat would increase. Ed guessed correctly.

The aggregate profit (using the “marked to market” rules) of \$1,200 is arbitrarily treated as 40% short-term capital gain and 60% long-term capital gain on Form 6781. The figures from lines 8 and 9 on Form 6781 flow to the 1998 Schedule D (Form 1040), as shown in Figure 9.

Practitioner Note. Ed will have to file Form 6781 for 1999, because he will close out the option position in 1999. He will report gain or loss he realizes from January 1, 1999, to the date of sale on that Form 6781.

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Figure 9

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. Get Rich Trading Co. 2 East Street Garden City, KS 67846		1a Date of sale 1b CUSIP No.	OMB No. 1545-0715 <div style="text-align: center; font-size: 2em; font-weight: bold;">1997</div> Form 1099-B	Proceeds From Broker and Barter Exchange Transactions
PAYER'S Federal identification number 12-3456789	RECIPIENT'S identification number 003-19-6781	2 Stocks, bonds, etc. \$	Reported to IRS } <input type="checkbox"/> Gross proceeds <input type="checkbox"/> Gross proceeds less commissions and option premiums	Copy B For Recipient This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
RECIPIENT'S name Ed Farmer S/A address (including apt. no.) RR#2 BOX 28A City, state, and ZIP code Liberal, KS 67901 Account number (optional) 370-223-18726		3 Bartering \$	4 Federal income tax withheld \$	
Description <div style="text-align: center; font-size: 1.5em; font-weight: bold;">RFC</div> <div style="text-align: center; font-weight: bold;">Regulated Futures Contracts</div>		6 Profit or (loss) realized in 1997 \$	7 Unrealized profit or (loss) on open contracts—12/31/96 \$	
8 Unrealized profit or (loss) on open contracts—12/31/97 \$ 1200.00		9 Aggregate profit or (loss) \$ 1200.00		

Form 1099-B (Keep for your records.) Department of the Treasury - Internal Revenue Service

Figure 9

Form 6781 Department of the Treasury Internal Revenue Service	Gains and Losses From Section 1256 Contracts and Straddles ▶ Attach to your tax return.	OMB No. 1545-0644 <div style="text-align: center; font-size: 1.5em; font-weight: bold;">1997</div> Attachment Sequence No. 82
Name(s) shown on tax return Ed Farmer		Identifying number 003-19-6781
Check applicable box(es) (see instructions): A <input type="checkbox"/> Mixed straddle election C <input type="checkbox"/> Mixed straddle account election B <input type="checkbox"/> Straddle-by-straddle identification election D <input type="checkbox"/> Net section 1256 contracts loss election		
Part I Section 1256 Contracts Marked to Market		
(a) Identification of account	(b) GAIN or (LOSS) For ENTIRE YEAR	(c) GAIN or (LOSS) from column (b) BEFORE 5/7/97
1 Form 1099-B Get Rich Trading Co.	1,200	
2 Net gain or (loss). Combine amounts on line 1 in columns (b) and (c)	1,200	
3 Form 1099-B adjustments. See instructions and attach schedule		
4 Combine lines 2 and 3, column (b)	1,200	
5 Combine lines 2 and 3, column (c) Note: If line 4 shows a net gain, skip line 6 and enter the line 4 and 5 amounts on line 7. Partnerships and S corporations, see instructions.		
6 If you have a net section 1256 contracts loss and checked box D, enter the amount to be carried back. Do not enter in column (c) more than any loss on line 5		
7 Subtract line 6, column (b) from line 4, and line 6, column (c) from line 5.	1,200	
8 Short-term capital gain or (loss). Multiply line 7, column (b) by 40%. Enter here and on Schedule D. See instructions.	480	
9 Long-term capital gain or (loss). Multiply line 7, columns (b) and (c) by 60%. Enter here and on Schedule D. See instructions	720	

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Figure 9

SCHEDULE D (Form 1040) Capital Gains and Losses
 Attach to Form 1040. See instructions for Schedule D (Form 1040).
 Use Schedule D-1 for more space to list transactions for lines 1 and 8.

OMB No. 1545-0074
1998
 Attachment Sequence No. 12

Department of the Treasury Internal Revenue Service (99)
 Name(s) shown on Form 1040: **Ed Farmer**
 Your social security number: **003 19 6781**

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

3	Total short-term sales price amounts. Add column (d) of lines 1 and 2				
4	Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824	4	480		
5	Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1	5			
6	Short-term capital loss carryover. Enter the amount, if any, from line 8 of your 1997 Capital Loss Carryover Worksheet	6	()		
7	Net short-term capital gain or (loss). Combine lines 1 through 6 in column (f)	7			

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-3)	(e) Cost or other basis (see page D-4)	(f) GAIN or (LOSS) Subtract (e) from (d)	(g) 28% RATE GAIN or (LOSS) * (see instr. below)
11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824					11 720	
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1					12	

Like-Kind Exchanges

Like-kind exchanges of property are reported on Form 8824, Like-Kind Exchanges. If there is a gain or a loss that must be recognized, the recognized gain from capital assets is reported on Schedule D (Form 1040) as short-term (on line 4) or as long-term (on line 11) gain.

Example 19: Gain from Form 8824. Hi Rise traded an apartment building for an office building in a transaction that qualifies as a like-kind exchange under I.R.C. §1031. He held each of the buildings for investment and not for use in a trade or business. Hi's adjusted basis in the apartment building at the time of the trade was \$100,000. The FMV of the apartment building was \$350,000, and the FMV of the office building was \$335,000. Hi received \$15,000 in cash to balance the value of the buildings.

Hi realizes \$250,000 of gain on the trade, but must only recognize \$15,000 of gain. That \$15,000 of gain is carried from line 23 of Form 8824 to line 11 of Schedule D (Form 1040), as shown in Figure 10.

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Figure 10

Form **8824** Like-Kind Exchanges
 (and nonrecognition of gain from conflict-of-interest sales)
 ▶ See separate instructions. ▶ Attach to your tax return.
 ▶ Use a separate form for each like-kind exchange.

OMB No. 1545-1190
1998
 Attachment Sequence No. 109

Name(s) shown on tax return Hi Rise Identifying number 003-19-8824

Part I Information on the Like-Kind Exchange

Note: If the property described on line 1 or line 2 is real or personal property located outside the United States, indicate the country.

1 Description of like-kind property given up ▶ Apartment building

2 Description of like-kind property received ▶ Office building

3 Date like-kind property given up was originally acquired (month, day, year) 02/13/81

4 Date you actually transferred your property to other party (month, day, year) 05/31/98

5 Date the like-kind property you received was identified (month, day, year) See instructions 06/20/98

6 Date you actually received the like-kind property from other party (month, day, year) 07/15/98

7 Was the exchange made with a related party? (If "Yes," complete Part IV. If "No," go to Part III. See instructions.)
 a Yes, in this tax year b Yes, in a prior tax year c No

Part III Realized Gain or (Loss), Recognized Gain, and Basis of Like-Kind Property Received

Caution: If you transferred and received (a) more than one group of like-kind properties, or (b) cash or other (not like-kind) property, see Reporting of multi-asset exchanges in the instructions.

Note: Complete lines 12 through 14 ONLY if you gave up property that was not like-kind. Otherwise, go to line 15.

12	Fair market value (FMV) of other property given up	12	
13	Adjusted basis of other property given up	13	
14	Gain or (loss) recognized on other property given up. Subtract line 13 from line 12. Report the gain or (loss) in the same manner as if the exchange had been a sale	14	
15	Cash received, FMV of other property received, plus net liabilities assumed by other party, reduced (but not below zero) by any exchange expenses you incurred. See instructions	15	<u>15,000</u>
16	FMV of like-kind property you received	16	<u>335,000</u>
17	Add lines 15 and 16	17	<u>350,000</u>
18	Adjusted basis of like-kind property you gave up, net amounts paid to other party, plus any exchange expenses not used on line 15. See instructions	18	<u>100,000</u>
19	Realized gain or (loss). Subtract line 18 from line 17	19	<u>250,000</u>
20	Enter the smaller of line 15 or line 19, but not less than zero	20	<u>15,000</u>
21	Ordinary income under recapture rules. Enter here and on Form 4797, line 16. See instructions	21	<u>-0-</u>
22	Subtract line 21 from line 20. If zero or less, enter -0-. If more than zero, enter here and on Schedule D or Form 4797, unless the installment method applies. See instructions	22	<u>15,000</u>
23	Recognized gain. Add lines 21 and 22	23	<u>15,000</u>
24	Deferred gain or (loss). Subtract line 23 from line 19. If a related party exchange, see instructions	24	<u>235,000</u>
25	Basis of like-kind property received. Subtract line 15 from the sum of lines 18 and 23	25	<u>100,000</u>

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Figure 10

SCHEDULE D Form 1040		Capital Gains and Losses			OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service (99)		▶ Attach to Form 1040. ▶ See instructions for Schedule D (Form 1040).			1998 Attachment Sequence No. 12	
Name(s) shown on Form 1040		▶ Use Schedule D-1 for more space to list transactions for lines 1 and 8.			Your social security number	
Hi Rise					003 19 8824	
Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year						
(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-3)	(e) Cost or other basis (see page D-4)	(f) GAIN or (LOSS) Subtract (e) from (d)	(g) 28% RATE GAIN * or (LOSS) * (see instr. below)
11 Gain from Form 4797, Part I: long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824					11 15,000	
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1.					12	

LINE 5—NET SHORT-TERM GAIN OR LOSS FROM SCHEDULES K-1

The taxpayer's share of net short-term capital gains or losses from partnerships (Schedule K-1 (Form 1065)); S corporations [Schedule K-1 (Form 1120-S)]; or estates and trusts [Schedule K-1 (Form 1041)] are reported on line 5 of Schedule D (Form 1040). These figures are reported on the respective Schedules K-1 that are filed by the entities. A copy of the Schedule K-1 is sent to the taxpayer.

Example 20: Losses from Partnership. May B. Broke received the following Schedule K-1 (Form 1065) from the ACME LLC. She must report her \$50,000 short-term capital loss on line 5 of her Schedule D (Form 1040) and \$450,000 of long-term loss on line 12 of her Schedule D (Form 1040), as shown in Figure 11.

LINE 6—SHORT-TERM CAPITAL LOSS CARRYOVER

The short-term capital loss carryover from the previous tax year (if any) is reported on line 6 of Schedule D (Form 1040). See the discussion of capital loss carryovers below.

LINE 7—NET SHORT-TERM CAPITAL GAIN OR (LOSS)

The gains and losses from lines 1 through 6, column (f), are combined, and the net gain or loss is reported on line 7 of Schedule D (Form 1040).

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Figure 11

SCHEDULE K-1 (Form 1065) <small>Department of the Treasury Internal Revenue Service</small>	Partner's Share of Income, Credits, Deductions, etc. <small>▶ See separate instructions.</small> For calendar year 1998 or tax year beginning _____, 1998, and ending _____, 19	<small>OMB No. 1545-0099</small> <div style="font-size: 2em; font-weight: bold; text-align: center;">1998</div>																																																																																	
Partner's identifying number ▶ 003-20-1065		Partnership's identifying number ▶ 20:0031065																																																																																	
Partner's name, address, and ZIP code May B. Broke 2807 Penny Lane Malibu, CA 98720		Partnership's name, address, and ZIP code Big Quake, LLC 3000 Oceanside Malibu, CA 98711																																																																																	
Income (Loss)	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 5%;">4</td> <td>Portfolio income (loss):</td> <td style="width: 5%;"></td> <td></td> <td></td> </tr> <tr> <td style="width: 5%;">a</td> <td>Interest</td> <td style="width: 5%;">4a</td> <td></td> <td>Sch. B, Part I, line 1</td> </tr> <tr> <td style="width: 5%;">b</td> <td>Dividends</td> <td style="width: 5%;">4b</td> <td></td> <td>Sch. B, Part II, line 5</td> </tr> <tr> <td style="width: 5%;">c</td> <td>Royalties</td> <td style="width: 5%;">4c</td> <td></td> <td>Sch. E, Part I, line 4</td> </tr> <tr> <td style="width: 5%;">d</td> <td>Net short-term capital gain (loss)</td> <td style="width: 5%;">4d</td> <td style="text-align: center;"><50,000></td> <td>Sch. D, line 5, col. (f)</td> </tr> <tr> <td style="width: 5%;">e</td> <td>Net long-term capital gain (loss):</td> <td></td> <td></td> <td></td> </tr> <tr> <td style="width: 5%;"></td> <td>(1) 28% rate gain (loss)</td> <td style="width: 5%;">e(1)</td> <td></td> <td>Sch. D, line 12, col. (g)</td> </tr> <tr> <td style="width: 5%;"></td> <td>(2) Total for year,</td> <td style="width: 5%;">e(2)</td> <td style="text-align: center;"><450,000</td> <td>Sch. D, line 12, col. (f)</td> </tr> <tr> <td style="width: 5%;">f</td> <td>Other portfolio income (loss) (attach schedule)</td> <td style="width: 5%;">4f</td> <td></td> <td>Enter on applicable line of your return</td> </tr> <tr> <td style="width: 5%;">5</td> <td>Guaranteed payments to partner</td> <td style="width: 5%;">5</td> <td></td> <td rowspan="3">See page 6 of Partner's instructions for Schedule K-1 (Form 1065).</td> </tr> <tr> <td style="width: 5%;">6</td> <td>Net section 1231 gain (loss) (other than due to casualty or theft)</td> <td style="width: 5%;">6</td> <td></td> </tr> <tr> <td style="width: 5%;">7</td> <td>Other income (loss) (attach schedule)</td> <td style="width: 5%;">7</td> <td></td> <td>Enter on applicable line of your return</td> </tr> <tr> <td style="vertical-align: middle; text-align: center;">Deductions</td> <td> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 5%;">8</td> <td>Charitable contributions (see instructions) (attach schedule)</td> <td style="width: 5%;">8</td> <td></td> <td>Sch. A, line 15 or 16</td> </tr> <tr> <td style="width: 5%;">9</td> <td>Section 179 expense deduction</td> <td style="width: 5%;">9</td> <td></td> <td rowspan="3">See page 7 of Partner's instructions for Schedule K-1 (Form 1065).</td> </tr> <tr> <td style="width: 5%;">10</td> <td>Deductions related to portfolio income (attach schedule)</td> <td style="width: 5%;">10</td> <td></td> </tr> <tr> <td style="width: 5%;">11</td> <td>Other deductions (attach schedule)</td> <td style="width: 5%;">11</td> <td></td> </tr> </table> </td> <td></td> <td></td> <td></td> </tr> </table>	4	Portfolio income (loss):				a	Interest	4a		Sch. B, Part I, line 1	b	Dividends	4b		Sch. B, Part II, line 5	c	Royalties	4c		Sch. E, Part I, line 4	d	Net short-term capital gain (loss)	4d	<50,000>	Sch. D, line 5, col. (f)	e	Net long-term capital gain (loss):					(1) 28% rate gain (loss)	e(1)		Sch. D, line 12, col. (g)		(2) Total for year,	e(2)	<450,000	Sch. D, line 12, col. (f)	f	Other portfolio income (loss) (attach schedule)	4f		Enter on applicable line of your return	5	Guaranteed payments to partner	5		See page 6 of Partner's instructions for Schedule K-1 (Form 1065).	6	Net section 1231 gain (loss) (other than due to casualty or theft)	6		7	Other income (loss) (attach schedule)	7		Enter on applicable line of your return	Deductions	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 5%;">8</td> <td>Charitable contributions (see instructions) (attach schedule)</td> <td style="width: 5%;">8</td> <td></td> <td>Sch. A, line 15 or 16</td> </tr> <tr> <td style="width: 5%;">9</td> <td>Section 179 expense deduction</td> <td style="width: 5%;">9</td> <td></td> <td rowspan="3">See page 7 of Partner's instructions for Schedule K-1 (Form 1065).</td> </tr> <tr> <td style="width: 5%;">10</td> <td>Deductions related to portfolio income (attach schedule)</td> <td style="width: 5%;">10</td> <td></td> </tr> <tr> <td style="width: 5%;">11</td> <td>Other deductions (attach schedule)</td> <td style="width: 5%;">11</td> <td></td> </tr> </table>	8	Charitable contributions (see instructions) (attach schedule)	8		Sch. A, line 15 or 16	9	Section 179 expense deduction	9		See page 7 of Partner's instructions for Schedule K-1 (Form 1065).	10	Deductions related to portfolio income (attach schedule)	10		11	Other deductions (attach schedule)	11				
4	Portfolio income (loss):																																																																																		
a	Interest	4a		Sch. B, Part I, line 1																																																																															
b	Dividends	4b		Sch. B, Part II, line 5																																																																															
c	Royalties	4c		Sch. E, Part I, line 4																																																																															
d	Net short-term capital gain (loss)	4d	<50,000>	Sch. D, line 5, col. (f)																																																																															
e	Net long-term capital gain (loss):																																																																																		
	(1) 28% rate gain (loss)	e(1)		Sch. D, line 12, col. (g)																																																																															
	(2) Total for year,	e(2)	<450,000	Sch. D, line 12, col. (f)																																																																															
f	Other portfolio income (loss) (attach schedule)	4f		Enter on applicable line of your return																																																																															
5	Guaranteed payments to partner	5		See page 6 of Partner's instructions for Schedule K-1 (Form 1065).																																																																															
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8	Charitable contributions (see instructions) (attach schedule)	8		Sch. A, line 15 or 16																																																																															
9	Section 179 expense deduction	9		See page 7 of Partner's instructions for Schedule K-1 (Form 1065).																																																																															
10	Deductions related to portfolio income (attach schedule)	10																																																																																	
11	Other deductions (attach schedule)	11																																																																																	

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Figure 11

SCHEDULE D (Form 1040)		Capital Gains and Losses					OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service (99)		▶ Attach to Form 1040. ▶ See Instructions for Schedule D (Form 1040). ▶ Use Schedule D-1 for more space to list transactions for lines 1 and 8.					1998 Attachment Sequence No. 12	
Name(s) shown on Form 1040		May B. Broke					Your social security number 003 20 1065	
Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less								
(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-3)	(e) Cost or other basis (see page D-4)	(f) GAIN or (LOSS) Subtract (e) from (d)			
5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1					5 <50,000>			
6 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your 1997 Capital Loss Carryover Worksheet					6 ()			
7 Net short-term capital gain or (loss). Combine lines 1 through 6 in column (f).					7			
Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year								
(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-3)	(e) Cost or other basis (see page D-4)	(f) GAIN or (LOSS) Subtract (e) from (d)	(g) 28% RATE GAIN or (LOSS) (see instr. below)		
11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824					11			
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1.					12 <450,000>			
13 Capital gain distributions. See pages D-1 and D-6					13			

PART II—LONG-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD MORE THAN ONE YEAR

Long-term capital gains and losses are reported in Part II of Schedule D (Form 1040). They are defined as gains [I.R.C. §1222(3)] and losses [I.R.C. §1222(4)] from the sale or exchange of capital assets held more than one year.

LINE 8—SALE OR EXCHANGE OF LONG-TERM CAPITAL GAIN OR LOSS ASSETS

Line 8 of Schedule D (Form 1040) is the catch-all line to report the sale or exchange of any capital asset that is held for more than a year and is not reported on another form. If there is not enough room to report all long-term capital gain transactions on line 8, transactions can be reported on line 8 of Schedule D-1 (Form 1040). See the discussion of Schedule D-1 below.

Sale of a Principal Residence

Because the Taxpayer Relief Act of 1997 excludes the gain on most sales of principal residences from income, **the IRS has eliminated Form 2119**, which was the form for reporting the sale of a principal residence. Therefore, if a taxpayer has taxable long-term gain from the sale of a principal residence, **the gain will presumably be reported on line 8 of Schedule D (Form 1040)**. Schedule D (Form 1040) instructions for 1998 (which have not been released at the time of this writing) **are likely to give guidance** on reporting sales of principal residences.

Example 21: Taxable Gain from Sale of Principal Residence. Gloria Read, who is not married, sold her personal residence on November 21, 1998, for \$400,000. She acquired the home on August 18, 1979, for \$100,000. Gloria can exclude \$250,000 of the \$300,000 of gain under I.R.C. §121, but must recog-

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nize the remaining \$50,000 of gain. Presumably, Gloria must report that gain, as shown on Schedule D (Form 1040) in Figure 12. See the 1998 Schedule D (Form 1040) instructions, when they are released, for any updates on reporting this gain.

Figure 12

SCHEDULE D (Form 1040)		Capital Gains and Losses				OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service (99)		▶ Attach to Form 1040. ▶ See instructions for Schedule D (Form 1040). ▶ Use Schedule D-1 for more space to list transactions for lines 1 and 8.				1998 Attachment Sequence No. 12	
Name(s) shown on Form 1040		Gloria Read				Your social security number	
						121 21 2119	
Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year							
(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-3)	(e) Cost or other basis (see page D-4)	(f) GAIN or (LOSS) Subtract (e) from (d)	(g) 28% RATE GAIN * or (LOSS) (see instr. below)	
B Personal Residence	8/18/79	11/21/98	400,000	100,000	50,000	*	

*\$250,000 of the \$300,000 gain is excluded under I.R.C. §121.

Practitioner Note. Many real estate closing agents are sending forms 1099-S to sellers of personal residences, even though they qualify for the I.R.C. §121 exclusion. If the taxpayer receives a Form 1099-S, it is a good idea to report the transaction on Schedule D (Form 1040), even though there is no taxable gain, so that the IRS can match the Form 1099-S amount.

If the gain on the personal residence is recognized because part of the home was used for an office in the home, the gain will be reported on Form 4797 and carried to line 11 of Schedule D (Form 1040).

Example 22: Taxable Gain from Sale of Office-in-the-Home. Chad Walker paid \$120,000 for his home when he purchased it on March 15, 1984. \$100,000 of the purchase price was allocated to the house and \$20,000 to the lot. Chad used 20% of the house as an office for his business and properly claimed \$18,800 (94% of \$20,000) of 15-year ACRS depreciation for the years 1984 through 1997.

On April 10, 1998, Chad sold his home for \$275,000. \$50,000 of the sale price is allocated to the lot and \$225,000 is allocated to the house. Since he was still using 20% of the house as an office, he must allocate \$45,000 (20% × \$225,000) to the sale of the portion of his home used for business. His depreciation for 1998 is calculated using the full-month convention, since his home was purchased before March 16, 1984. Therefore, he must claim $\frac{3}{12}$ of the depreciation that he would have claimed for 1998 if he had not sold his house. His 1998 depreciation and total depreciation are calculated as follows:

Full 1998 depreciation (\$20,000 × 5%)	\$ 1,000
Portion of year before month of sale ($\frac{3}{12}$)	× .25
Depreciation for 1998	\$ 250
Pre-1998 depreciation	18,800
Total Depreciation	\$19,050

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Chad's gain on sale of the business portion of his home is calculated as follows:

Amount realized		\$45,000
Adjusted basis		
Beginning basis	\$20,000	
Depreciation	<u>19,050</u>	
Adjusted basis		<u>950</u>
Gain on sale		\$44,050
§1245 recapture		<u>19,050¹</u>
Gain to report in Part I of Form 4797		\$25,000

¹The sale is subject to §1245 recapture, since accelerated depreciation was claimed on nonresidential real property placed in the service after 1980 and before 1987. [During this period, this type of property as defined as §1245, **not** §1250, property.]

Chad's Form 4797 and Schedule D (Form 1040) are shown in Figure 13 and 14.

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Figure 13

Form 4797 Department of the Treasury Internal Revenue Service (991)	Sales of Business Property (Also Involuntary Conversions and Recapture Amounts Under Sections 179 and 280F(b)(2)) ▶ Attach to your tax return. ▶ See separate instructions.	OMB No. 1545-0184 199798 Attachment Sequence No. 27						
Name(s) shown on return Chad Walker		Identifying number 121-22-4797						
1 Enter here the gross proceeds from the sale or exchange of real estate reported to you for 1997 on Form(s) 1099-S (or a substitute statement) that you will be including on line 2, 10, or 20		1 45,000*						
Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft—Property Held More Than 1 Year								
(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) GAIN or (LOSS) for entire year. Subtract (f) from the sum of (d) and (e)	(h) 28% RATE GAIN or (LOSS) * (see instr. below)	
2								
3	Gain, if any, from Form 4684, line 39						3	
4	Section 1231 gain from installment sales from Form 6252, line 26 or 37						4	
5	Section 1231 gain or (loss) from like-kind exchanges from Form 8824						5	
6	Gain, if any, from line 32, from other than casualty or theft						6	25,000
7	Combine lines 2 through 6 in columns (g) and (h). Enter gain or (loss) here, and on the appropriate line as follows:						7	25,000
Part II Ordinary Gains and Losses			10 Ordinary gains and losses not included on lines 11 through 17 (include property held 1 year or less):					
11	Loss, if any, from line 7, column (g)						11	
12	Gain, if any, from line 7, column (g) or amount from line 8, column (g) if applicable						12	
13	Gain, if any, from line 31						13	19,050
Part III Gain From Disposition of Property Under Sections 1245, 1250, 1252, 1254, and 1255			19 (a) Description of section 1245, 1250, 1252, 1254, or 1255 property:					
A	Office-in-the-home				(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)		
B					5/15/84	4/10/98		
C								
D								
These columns relate to the properties on lines 19A through 19D. ▶				Property A	Property B	Property C	Property D	
20	Gross sales price (Note: See line 1 before completing)			20	45,000			
21	Cost or other basis plus expense of sale			21	20,000			
22	Depreciation (or depletion) allowed or allowable			22	19,050			
23	Adjusted basis. Subtract line 22 from line 21			23	950			
24	Total gain. Subtract line 23 from line 20			24	44,050			
25 If section 1245 property:				25a	19,050			
a Depreciation allowed or allowable from line 22				25b	19,050			
b Enter the smaller of line 24 or 25a								
Summary of Part III Gains. Complete property columns A through D through line 29b before going to line 30.								
30	Total gains for all properties. Add property columns A through D, line 24						30	44,050
31	Add property columns A through D, lines 25b, 26g, 27c, 28b, and 29b. Enter here and on line 13						31	19,050
32	Subtract line 31 from line 30. Enter the portion from casualty or theft on Form 4684, line 33. Enter the portion from other than casualty or theft on Form 4797, line 6, column (g), and if applicable, column (h)						32	25,000

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Attachment for 1998 Form 4797
Chad Walker, SS# 121-22-4797

Gross proceeds reported on 1998 Form 1099-S	\$275,000
Proceeds for personal residence that qualifies for I.R.C. §121 exclusion	230,000
Gross proceeds reported on Form 4797	\$ 45,000

Figure 14
Figure 14

SCHEDULE D (Form 1040) <small>Department of the Treasury Internal Revenue Service (99)</small>	Capital Gains and Losses ▶ Attach to Form 1040. ▶ See instructions for Schedule D (Form 1040). ▶ Use Schedule D-1 for more space to list transactions for lines 1 and 8.	OMB No. 1545-0074 1998 Attachment Sequence No. 12				
Name(s) shown on Form 1040: Chad Walker		Your social security number 121 22 4797				
Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year						
(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-3)	(e) Cost or other basis (see page D-4)	(f) GAIN or (LOSS) Subtract (e) from (d)	(g) 28% RATE GAIN * or (LOSS) (see instr. below)
8						
9	Enter your long-term totals, if any, from Schedule D-1, line 9		9			
10	Total long-term sales price amounts. Add column (d) of lines 8 and 9		10			
11	Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824		11		25,000	
12	Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1.		12			
13	Capital gain distributions. See pages D-1 and D-6		13			
14	Long-term capital loss carryover. Enter in both columns (f) and (g) the amount, if any, from line 13 of your 1997 Capital Loss Carryover Worksheet		14			
15	Combine lines 8 through 14 in column (g)		15			
16	Net long-term capital gain or (loss). Combine lines 8 through 14 in column (f). ▶		16			
Next: Go to Part III on the back.						
<small>* 28% Rate Gain or Loss includes all "collectibles gains and losses" (as defined on page D-4) and part or all of the eligible gain on qualified small business stock (see page D-4).</small>						
<small>For Paperwork Reduction Act Notice, see Form 1040 instructions.</small>			<small>Cat. No. 11338H</small>	<small>Schedule D (Form 1040) 1998</small>		

Section 1202 Gain—Qualified Small Business Stock

The Revenue Reconciliation Act of 1993 added I.R.C. §1202, which excludes from income 50% of gain realized on the sale of qualified small business stock **held for more than five years**. One of the requirements for being qualified small business stock is that the stock is issued after August 10, 1993. **Therefore, sales of stock before August 10, 1998 do not qualify for this exclusion.**

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The Taxpayer Relief Act of 1996 included an amount of long-term capital gain equal to the gain excluded under I.R.C. §1202 in the long-term capital gain that is subject to the 28% maximum tax rate. That provision was not changed by the 1997 Act.

Therefore, **beginning with sales after August 10, 1998**, there are **two special rules** for reporting the gain on the sale of qualified small business stock.

1. 50% of the gain is excluded from income (up to the limit discussed below), and
2. Long-term capital gain equal to the amount excluded must be reported as gain subject to the 28% maximum rate.

Limit on the Exclusion. The amount that can be excluded under I.R.C. §1202 can be **no more** than the greater of:

1. \$10 million reduced by the amount that has been excluded by the taxpayer for the sale of stock from the same corporation in prior years, or
2. 10 times the taxpayer's basis in the stock that was sold during the year.

Definition of Qualified Small Business Stock. To be qualified small business stock, the following requirements must be met:

1. The stock was originally issued by a C corporation after August 10, 1993.
2. For the period beginning August 10, 1993, and ending on the date the stock is issued, the aggregate gross assets of the corporation (including the amount received in the issuance) did not exceed \$50 million.
3. The taxpayer received the stock in exchange for money or other property (**not including stock**) or for services provided to the corporation (other than services performed as an underwriter of the stock).
4. During substantially all of the taxpayer's holding period, the corporation uses **at least 80% of its assets in one or more qualified trades or businesses**. A qualified trade or business is any business **other than**:
 - a. any trade or business involving the performance of services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset of such trade or business is the **reputation or skill of one or more of its employees**,
 - b. any banking, insurance, financing, leasing, investing, or similar business,
 - c. any farming business (including the business of raising or harvesting trees),
 - d. any business involving the production or extraction of products of a character with respect to which a deduction is allowable under §613 or 613A, and
 - e. any business of operating a hotel, motel, restaurant, or similar business.

Reporting §1202 Gain. At the time of this writing, the instructions for the 1998 Schedule D (Form 1040) have not been released. The early release draft of the 1998 Schedule D makes no special mention of I.R.C. §1202 gain, but the Instructions for Recipient of the 1998 Form 1099-DIV refer the reader to the Schedule D (Form 1040) instructions regarding the 50% exclusion for §1202 gain. **Therefore, it appears that the gain from qualified small business stock will be reported on line 8 of Schedule D (Form 1040)—the catch-all line for reporting long-term capital gain.** Only the gain **not** excluded by §1202 should be reported in column (f) and gain equal to the amount **excluded** should be reported in column (g).

Example 23: I.R.C. §1202 Gain. Roy Brown paid \$250,000 for 2,500 shares of Small Corporation stock, which was qualified small business stock, on September 15, 1993. He sold all 2,500 shares for \$550,000 on September 26, 1998. Subject to guidance from yet to be released Schedule D instructions, Roy must

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report \$150,000 of gain in both column (f) and column (g) of line 8, as shown on the Schedule D (Form 1040) in Figure 15.

Observation. In most cases, the gain reported in columns (f) and (g) will be the same, since the 50% included in income equals the 50% excluded from income. However, if the \$10 million/10 times basis limit applies, then the gain reported in column (f) will exceed the gain reported in column (g).

Figure 15

SCHEDULE D (Form 1040)		Capital Gains and Losses					OMB No. 1545-0074
Department of the Treasury Internal Revenue Service (99)		▶ Attach to Form 1040. ▶ See Instructions for Schedule D (Form 1040). ▶ Use Schedule D-1 for more space to list transactions for lines 1 and 8.					1998
Name(s) shown on Form 1040		Your social security number					Attachment Sequence No. 12
Roy Brown							003 21 1202
Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year							
(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-3)	(e) Cost or other basis (see page D-4)	(f) GAIN or (LOSS) Subtract (e) from (d)	(g) 28% RATE GAIN or (LOSS) * (see instr. below)	
8 2,500 sh. of Small Corporation	9/15/93	9/26/98	550,000	250,000	150,000	150,000	
9 Enter your long-term totals, if any, from Schedule D-1, line 9			9				
10 Total long-term sales price amounts. Add column (d) of lines 8 and 9			10				

LINE 9—TOTALS FROM LINE 9 OF SCHEDULE D-1 (FORM 1040)

The total of line 8, column (d) (Sales Price) of Schedule D-1 (Form 1040) is reported on line 9 of Schedule D-1 (Form 1040), shown in Figure 15, and then carried to line 9, column (d) of Schedule D (Form 1040). Similarly, the net gain or loss of the items reported in columns (f) and (g) of line 8, Schedule D-1 (Form 1040) are reported on line 9 of Schedule D-1 (Form 1040) and then carried to line 9 of Schedule D (Form 1040).

LINE 10—TOTAL LONG-TERM SALES PRICE AMOUNTS

The total of the sales prices reported for all of the transactions on line 8 of Schedule D (Form 1040) and line 8 of Schedule D-1 (Form 1040) are reported on line 10 of Schedule D (Form 1040). **The IRS compares this amount with the amounts reported on Forms 1099-B to see whether the taxpayer has reported all of the sales of long-term capital gains assets for the year.**

LINE 11—LONG-TERM GAINS AND LOSSES FROM OTHER FORMS

Long-term gains and losses from transactions that were initially reported on several other forms are reported on line 11 of Schedule D (Form 1040). These transactions are reported on other forms because of special rules that apply to the transactions. The discussion and examples above for line 4 illustrate long-term gain from **Forms 4684 and 6781**. The rest of the forms that feed into line 11 are discussed and illustrated below.

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Sales of Business Property

Sales or exchanges of business property are reported on Form 4797. Gains from Form 4797 that qualify for long-term capital gain treatment are reported on line 11 of Schedule D (Form 1040).

Part I of Form 4797 is used to report I.R.C. §1231 gains and losses. After aggregating the gains and losses, I.R.C. §1231 allows taxpayers to deduct the net loss from I.R.C. §1231 transactions against ordinary income, but report the net gain from such transactions as a long term capital gain [I.R.C. §1231(a)].

A. I.R.C. §1231 Treatment. To qualify for I.R.C. §1231 treatment [I.R.C. §1231(a)(3)], property must be either:

1. “Used in a trade or business” (for example, land, buildings, and equipment) or
2. A capital asset that was held for more than a year in connection with a trade or business or a transaction entered into for profit and that was subject to an involuntary conversion.

Practitioner Note. Although land, buildings, and equipment that are used in a business are commonly referred to as capital assets, the Internal Revenue Code excludes such assets from the definition of “capital assets.” [I.R.C. §1221(2).]

B. Property Used in a Trade or Business: General Definition. In the context of I.R.C. §1231, the phrase “used in the trade or business” has a very specific meaning [I.R.C. §1231(b)]. Property must meet three requirements to be “used in the trade or business” under this definition:

1. It must be held for more than one year,
2. It must be used in a trade or business (in the normal meaning of that phrase rather than the specific meaning of I.R.C. §1231) and be either:
 - a. subject to the allowance for depreciation, or
 - b. real property, and
3. It must be property that is used to produce other property. In other words, it cannot be inventory or property that is held for sale in the ordinary course of business.

Note: Generally, case law indicates that rental real estate is an I.R.C. §1231 asset and not §1221 investment property.

C. Other Excluded Property

Other property that is specifically **excluded** from I.R.C. §1231 treatment includes:

1. A copyright; a literary, musical, or artistic composition; a letter, memorandum, or similar property [I.R.C. §1231(b)(1)(C)] held by:
 - a. A taxpayer whose personal efforts created the property,
 - b. In the case of a letter, memorandum, or similar property, a taxpayer for whom the property was prepared or produced, or
 - c. A taxpayer who acquired the property from a taxpayer described in a or b above in a transaction that gave him or her a carryover basis in the property.

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2. A publication of the United States government that is received from the United States government, or any agency of it, other than by purchase at the price at which it is offered for sale to the public [I.R.C. §1231(b)(1)(D)], and that is held by:
 - a. A taxpayer who received the publication from the United States government, or
 - b. A taxpayer who acquired the property from a taxpayer described in a above in a transaction that gave him or her a carryover basis in the property.

D. Other Included Property

Other property that is specifically **included** in I.R.C. §1231 property includes:

1. Timber for which the owner has made the election under I.R.C. §631(a) to treat the cutting as a sale or exchange [I.R.C. §1231(b)(2)],
2. Timber, coal, or domestic iron ore sold under a contract that retains an economic interest for the taxpayer [I.R.C. §1231(b)(2)],
3. Cattle and horses held for draft, breeding, dairy, or sporting purposes and held for 24 months or more [I.R.C. §1231(b)(3)(A)],
4. Other livestock held for draft, breeding, dairy, or sporting purposes and held for 12 months or more [I.R.C. §1231(b)(3)(A)], and
5. Unharvested crops [I.R.C. §1231(b)(4)] that are:
 - a. On land used in the trade or business and held for more than one year, and
 - b. Sold or exchanged at the same time and to the same person as the land.

E. Involuntary Conversions

The involuntary conversions included in I.R.C. §1231 transactions are:

1. Destruction by fire, storm, shipwreck, or other casualty, but only if the recognized gains from such conversions exceed the recognized losses from such conversions,
2. Theft or seizure, but only if the recognized gains from such conversions exceed the recognized losses from such conversions, or
3. Condemnation or the threat or imminence of condemnation.

F. Recapture of I.R.C. §1231 Losses from Prior Years. I.R.C. §1231(c) adds another wrinkle, which is dealt with in Part I of Form 4797. The wrinkle is that net I.R.C. §1231 gains in a given year must be reported **as ordinary income** to the extent that I.R.C. §1231 losses were deducted against ordinary income in the previous **five years** and have **not yet been recaptured**. This rule requires a taxpayer to keep a running balance of unrecaptured I.R.C. §1231 losses, so that the amount of net I.R.C. §1231 gain that must be reported as ordinary income can be calculated.

G. Reporting on Part I of Form 4797. Part I of Form 4797 is designed to report all I.R.C. §1231 gains and losses and channel the net gain or loss to the appropriate form. Most of these transactions are reported for the first time in Part I of Form 4797. Some I.R.C. §1231 transactions are initially reported on another form, and net gains and losses are carried to Part I of Form 4797.

Example 24: Gain from Form 4797. On July 10, 1998, to build a new street, the city acquired by condemnation 10 acres of vacant land that Teresa Parks was holding for investment. She had purchased the land on December 13, 1994, for \$100,000. She paid an attorney \$5,000 to represent her in the eminent domain proceeding. She received \$75,000 from the city.

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Teresa owned another two-acre parcel, which she used in her business. She sold that parcel on August 23, 1995 for \$50,000. She had purchased the two-acre parcel on April 1, 1973, for \$10,000. Teresa paid a broker a \$1,000 commission fee.

Teresa has \$2,000 of nonrecaptured net §1231 losses from prior years.

These two transactions are reported on line 2 of Form 4797, as shown in Figure 16.

Figure 16

Form 4797		Sales of Business Property (Also Involuntary Conversions and Recapture Amounts Under Sections 179 and 280F(b)(2))		OMB No. 1545-0184			
Department of the Treasury Internal Revenue Service (99)		▶ Attach to your tax return. ▶ See separate instructions.		1997 98 Attachment Sequence No. 27			
Name(s) shown on return Teresa Parks				Identifying number 003-21-4797			
1 Enter here the gross proceeds from the sale or exchange of real estate reported to you for 1997 on Form(s) 1099-S (or a substitute statement) that you will be including on line 2, 10, or 20					1		
Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft—Property Held More Than 1 Year							
(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) GAIN or (LOSS) for entire year. Subtract (f) from the sum of (d) and (e)	(h) 28% RATE GAIN or (LOSS) * (see instr. below)
2 10 acres	12/13/94	7/10/98	75,000	-0-	105,000	30,000	
2 acres	4/1/73	8/23/98	50,000	-0-	11,000	39,000	
3 Gain, if any, from Form 4684, line 39							
4 Section 1231 gain from installment sales from Form 6252, line 26 or 37							
5 Section 1231 gain or (loss) from like-kind exchanges from Form 8824							
6 Gain, if any, from line 32, from other than casualty or theft							
7 Combine lines 2 through 6 in columns (g) and (h). Enter gain or (loss) here, and on the appropriate line as follows: Partnerships—Enter the gain or (loss) on Form 1065, Schedule K, lines 6a and 6b. Skip lines 8, 9, 11, and 12 below. S corporations—Report the gain or (loss) following the instructions for Form 1120S, Schedule K, lines 5 and 6. Skip lines 8, 9, 11, and 12 below, unless line 7, column (g) is a gain and the S corporation is subject to the capital gains tax. All others—If line 7, column (g) is zero or a loss, enter that amount on line 11 below and skip lines 8 and 9. If line 7, column (g) is a gain and you did not have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain or (loss) in each column as a long-term capital gain or (loss) on Schedule D and skip lines 8, 9, and 12 below.							
8 Nonrecaptured net section 1231 losses from prior years (see instructions)						9,000	
9 Subtract line 8 from line 7. If zero or less, enter -0-. Also enter on the appropriate line as follows (see instructions): S corporations—Enter only the gain in column (g) on Schedule D (Form 1120S), line 14, and skip lines 11 and 12 below. All others—If line 9, column (g) is zero, enter the gain from line 7, column (g) on line 12 below. If line 9, column (g) is more than zero, enter the amount from line 8, column (g) on line 12 below, and enter the gain or (loss) in each column of line 9 as a long-term capital gain or (loss) on Schedule D.						2,000	
11 Loss, if any, from line 7, column (g)							
12 Gain, if any, from line 7, column (g) or amount from line 8, column (g) if applicable						7,000	
13 Gain, if any, from line 31							
14 Net gain or (loss) from Form 4684, lines 31 and 38a							
15 Ordinary gain from installment sales from Form 6252, line 25 or 36							

* Corporations (other than S corporations) should not complete column (h). Partnerships and S corporations must complete column (h). All others must complete column (h) only if line 7, column (g), is a gain. 28% rate gain or loss includes all gains and losses in column (g) from sales, exchanges, or conversions (including installment payments received) either (a) before 5/7/97 or (b) after 7/28/97 for assets held more than 1 year but not more than 18 months.

Shareholder's Undistributed Long-Term Capital Gains

Regulated investment companies (mutual funds) are required to report undistributed long-term capital gains that are to be taxed to the taxpayer on **Form 2439—Notice to Shareholder of Undistributed Long-Term Capital Gains**. These gains are then reported on line 11 of the taxpayer's Schedule D (Form 1040).

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Example 25: Undistributed Long-Term Capital Gains from Form 2439. Tex Shelter received from the Mess Mutual Co. the Form 2439 shown in Figure 17. Tex reports his \$28,996 of long-term capital gain from the Form 2439 in column (f) of line 11 on Schedule D (Form 1040). He reports the \$1,913 of 28% rate gain in column (g) of line 11 on Schedule D (Form 1040). **He reports the \$10,148 of tax paid on line 63 of Form 1040.** The forms and schedules are shown in Figure 18.

Figure 17

VOID CORRECTED

Regulated investment company or real estate investment trust's name, address, and ZIP code Mess Mutual Co. 101 Main Street Mesa, AZ 90722	OMB No. 1545-0145 1998	Notice to Shareholder of Undistributed Long-Term Capital Gains For calendar year 1998, or other tax year of the regulated investment company or the real estate investment trust beginning 1998, and ending 19
Regulated investment company or real estate investment trust's identification number 09-8726534	Form 2439	
Shareholder's identification number 003-21-2439	1a Total undistributed long-term capital gain \$28,996	Copy A Attach to Form 1120-RIC or Form 1120-REIT For Instructions and Paperwork Reduction Act Notice, see back of Copies A and D.
Shareholder's name, address, and ZIP code Tex Shelter 1205 Dixie Way Delta, MS 39872	1b 28% rate gain \$1,913 1c Unrecaptured section 1250 gain \$ - 1d Section 1091 gain \$ -	
	2 Tax paid by the regulated investment company or real estate investment trust on the box 14 gains \$10,148	

Form 2439 Rev. No. 1-95-545F Department of the Treasury - Internal Revenue Service

Figure 18

SCHEDULE D (Form 1040) Department of the Treasury Internal Revenue Service (99)	Capital Gains and Losses Attach to Form 1040. See Instructions for Schedule D (Form 1040). Use Schedule D-1 for more space to list transactions for lines 1 and 8	OMB No. 1545-0074 1998 Attachment Sequence No. 12						
Name(s) shown on Form 1040 Tex Shelter		Your social security number 003 21 2439						
Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year								
(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-3)	(e) Cost or other basis (see page D-4)	(f) GAIN or (LOSS) Subtract (e) from (d)	(g) 28% RATE GAIN or (LOSS) * (see instr. below)		
8								
9	Enter your long-term totals, if any, from Schedule D-1, line 9					9		
10	Total long-term sales price amounts. Add column (d) of lines 8 and 9					10		
11	Gain from Form 4797, Part I; long-term gain from Forms 2439 and 8252; and long-term gain or (loss) from Forms 4684, 6781, and 8824					11	28,996	1,913
12	Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1.					12		

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1040 Department of the Treasury—Internal Revenue Service **1998** U.S. Individual Income Tax Return

For the year Jan. 1–Dec. 31, 1998, or other tax year beginning _____, 1998, ending _____, 19 _____ OMB No. 1545-0074

Your first name and initial: **Tex** Last name: **Shelter** Your social security number: **003:21:2439**

If a joint return, spouse's first name and initial: _____ Last name: _____ Spouse's social security number: _____

Home address (number and street). If you have a P.O. box, see page 12. **1205 Dixie Way** Apt. no. _____

City, town or post office, state, and ZIP code. If you have a foreign address, see page 12. **Delta, MS 39872**

IMPORTANT! You must enter your SSN(s) above.

Do you want \$3 to go to this fund? Yes No Note: Checking "Yes" will not change your tax or reduce your refund.

If a joint return, does your spouse want \$3 to go to this fund? Yes No

57	Federal income tax withheld from Forms W-2 and 1099	
58	1998 estimated tax payments and amount applied from 1997 return	
59a	Earned income credit. Attach Schedule EIC if you have a qualifying child b Nontaxable earned income: amount ▶ _____ and type ▶ _____	
60	Additional child tax credit. Attach Form 8812	
61	Amount paid with Form 4868 (request for extension)	
62	Excess social security and RRTA tax withheld (see page 37)	
63	Other payments. Check if from a <input checked="" type="checkbox"/> Form 2439 b <input type="checkbox"/> Form 4136	10,148
64	Add lines 57, 58, 59a, and 60 through 63. These are your total payments	

Installment Sales

Installment sales are reported on Form 6252, Installment Sale Income. Form 6252 calculates the portion of the gain that is reported each year of an installment sale and the portion of the gain that is capital gain. Only gains are reported on the installment basis. A long-term loss on an installment sale of a capital asset should be reported on line 8 of Schedule D (Form 1040).

Example 26: Installment Sale of Long-Term Asset. Lana Lord paid \$100,000 for a duplex in 1974. The fair market value of the lot was \$10,000, and the fair market value of the building was \$90,000. She rented the duplex and used a declining balance method to compute her depreciation. In 1984, she sold the duplex on a 19-year installment contract for \$200,000. The contract requires the buyer to pay \$10,000 at the time of the sale and \$10,000 per year for the next 19 years, plus 10% interest on the unpaid balance. At the time of sale, she had claimed \$70,000 of ACRS depreciation and had a \$30,000 adjusted basis. Straight-line depreciation would have been \$60,000 at the time of sale.

On her 1984 income tax return, Lana properly reported \$10,000 of depreciation recapture and calculated an 80% gross profit ratio ($\$200,000 - (\$30,000 + \$10,000) = \$160,000 \div \$200,000$). For 1984, 1985, and 1986, Lana reported \$8,000 of long-term capital gain ($80\% \times \$10,000$) from the installment sale and claimed a \$4,800 ($60\% \times \$8,000$) long-term capital gain exclusion. Beginning in 1987, Lana reported 100% of her \$8,000 long-term capital gain from the installment contract each year.

Beginning in 1997, Lana's unrecaptured \$1250 gain from the sale is subject to the 25% maximum capital gain rate. The portion of the \$8,000 gain that is subject to the 25% rate is the ratio of the unrecaptured 1250 gain to the total gain in the year of the sale. That ratio is $\$60,000 \div \$160,000 = 37.5\%$. Therefore, beginning in 1997, \$3,000 ($37.5\% \times \$8,000$) of the gain is subject to the 25% rate. The remaining \$5,000 of gain is now subject to the 20% rate. Lana's Form 6252 and Schedule D (Form 1040) for 1998 are shown in Figure 19.

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Figure 19

Form 6252 **Installment Sale Income** OMB No. 1545-0228
 Department of the Treasury Internal Revenue Service **1998** Attachment Sequence No. 79
 Name(s) shown on return Lana Lord Identifying number 003-24-6252

▶ See separate instructions. ▶ Attach to your tax return.
 ▶ Use a separate form for each sale or other disposition of property on the installment method.

1 Description of property ▶ Rental Duplex
 2a Date acquired (month, day, year) ▶ 02/13/74 ▶ Date sold (month, day, year) ▶ 10/29/84
 3 Was the property sold to a related party after May 14, 1980? See instructions. If "No," skip line 4 Yes No
 4 Was the property you sold to a related party a marketable security? If "Yes," complete Part III. If "No," complete Part III for the year of sale and the 2 years after the year of sale Yes No

Part II **Installment Sale Income.** Complete this part for the year of sale and any year you receive a payment or have certain debts you must treat as a payment on installment obligations.

19	Gross profit percentage. Divide line 16 by line 18. For years after the year of sale, see instructions	19	<u>80.00%</u>
20	For year of sale only: Enter amount from line 17 above; otherwise, enter -0-	20	
21	Payments received during year. See instructions. Do not include interest whether stated or unstated	21	<u>10,000</u>
22	Add lines 20 and 21	22	<u>10,000</u>
23	Payments received in prior years. See instructions. Do not include interest whether stated or unstated	23	<u>140,000</u>
24	Installment sale income. Multiply line 22 by line 19	24	<u>8,000</u>
25	Part of line 24 that is ordinary income under recapture rules. See instructions	25	<u>-0-</u>
26	Subtract line 25 from line 24. Enter here and on Schedule D or Form 4797. See instructions	26	<u>8,000</u>

SCHEDULE D (Form 1040) **Capital Gains and Losses** OMB No. 1545-0074
 Department of the Treasury Internal Revenue Service (99) **1998** Attachment Sequence No. 12
 Name(s) shown on Form 1040 Lana Lord Your social security number 003 24 6252

▶ Attach to Form 1040. ▶ See instructions for Schedule D (Form 1040).
 ▶ Use Schedule D-1 for more space to list transactions for lines 1 and 8.

11	Gain from Form 4797, Part I: long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824	11	<u>8,000</u>
12	Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1.	12	

Part IV **Tax Computation Using Maximum Capital Gains Rates**

19	Enter your taxable income from Form 1040, line 38	19	
20	Enter the smaller of line 16 or line 17 of Schedule D	20	
21	If you are filing Form 4952, enter the amount from Form 4952, line 4e	21	
22	Subtract line 21 from line 20. If zero or less, enter -0-	22	
23	Combine lines 17 and 18. If zero or less, enter -0-	23	
24	Enter the smaller of line 15 or line 23, but not less than zero	24	
25	Enter your unrecaptured section 1250 gain, if any (see page D-4)	25	<u>3,000</u>
26	Add lines 24 and 25	26	
27	Subtract line 26 from line 24. If zero or less, enter -0-	27	
28	Subtract line 27 from line 19. If zero or less, enter -0-	28	
29	Enter the smaller of: • The amount on line 19, or • \$25,350 if single; \$42,350 if married filing jointly or qualifying widow(er); \$21,175 if married filing separately; or \$33,950 if head of household	29	
30	Enter the smaller of line 28 or line 29	30	
31	Subtract line 22 from line 19. If zero or less, enter -0-	31	
32	Enter the larger of line 30 or line 31	32	
33	Figure the tax on the amount on line 32. Use the Tax Table or Tax Rate Schedules, whichever applies	33	

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LINE 12—NET LONG-TERM GAIN OR LOSS FROM SCHEDULES K-1

The taxpayer's shares of net long-term capital gains or losses from partnerships [Schedule K-1 (Form 1065)], S corporations [Schedule K-1 (Form 1120-S)], and estates and trusts [Schedule K-1 (Form 1041)] are reported on line 5 of Schedule D (Form 1040). These figures are reported on the respective Schedules K-1 that are filed by the entities. A copy of the Schedule K-1 is sent to the taxpayer.

See Example 20 above for an illustration of carrying a loss from Schedule K-1 (Form 1065).

LINE 13—CAPITAL GAIN DISTRIBUTIONS

Capital gain distributions received by shareholders (from Form 1099-DIV) are reported on line 13 of Schedule D (Form 1040). The total capital gain distribution (box 2a of Form 1099-DIV) is reported in column (f).

The 28% rate gain (box 2b of Form 1099-DIV) is reported in column (g).

The unrecaptured §1250 gain (box 2c of Form 1099-DIV) is reported on line 25 of Schedule D (Form 1040).

The §1202 gain (box 2d of Form 1099-DIV) is subject to the two special rules for reporting gain from qualified small business stock discussed above (see line 8 discussion). At the time of this writing, the instructions for the 1998 Schedule D (Form 1040) have not been released. However, the instructions for the 1998 Form 1099-DIV indicate that all of the gain from I.R.C. §1202 stock will be reported in box 2d of Form 1099-DIV. Therefore, the taxpayer must sort out the excluded gain from the gain that is not excluded by §1202. Presumably, the gain that is **not excluded** from income will be reported in column (f) of line 13 and an amount equal to the **excluded gain** will be reported in column (g) of line 13.

Practitioner Note. The instructions for the 1998 Form 1099-DIV instruct regulated investment companies (RIC) (also referred to as mutual fund companies) to furnish a statement to the recipient showing his or her share of the RIC's adjusted basis in the qualified small business stock and the name of the qualified small business stock. That information is needed by the recipient to calculate the limit on the §1202 exclusion.

Example 27: Capital Gain Distributions. Ivan Investor received the Form 1099-DIV for 1998 shown in Figure 20 from Big Mutual Fund.

Included with the Form 1099-DIV was the following statement.

Recipient's Share of Basis in Qualified Small Business Stock

Your share of the basis in the Qualified Small Business Investment stock that was sold in 1998 is \$300.

Ivan reports his capital gains from the Form 1099-DIV as shown on the following Schedule D (Form 1040) in Figure 21.

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Figure 20

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. <i>Big Mutual Fund 1000 Wall Street New York, NY 10722</i>		1 Ordinary dividends \$ <i>6,910</i>	OMB No. 1545-0110 1998 Form 1099-DIV	Dividends and Distributions Copy B For Recipient This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
		2a Total capital gain distr. \$ <i>4,230</i>		
PAYER'S Federal identification number <i>04-0251099</i>	RECIPIENT'S identification number <i>003-25-1099</i>	2b 28% rate gain \$ <i>100</i>	2c Unrecap. sec. 1250 gain \$ <i>700</i>	
RECIPIENT'S name <i>Ivan Investor</i>		2d Section 1202 gain \$ <i>400</i>	3 Nontaxable distributions \$	
Street address (including apt. no.) <i>400 Soybean Road</i>		4 Federal income tax withheld \$	5 Investment expenses \$	
City, state, and ZIP code <i>Rural, IA 50377</i>		6 Foreign tax paid \$	7 Foreign country or U.S. possession	
Account number (optional)		8 Cash liquidation distr. \$	9 Noncash liquidation distr. \$	

Form 1099-DIV (Keep for your records.) Department of the Treasury - Internal Revenue Service

Figure 21

OMB No. 1545-0074
1998
Attachment Sequence No. 12

SCHEDULE D (Form 1040) Capital Gains and Losses

▶ Attach to Form 1040. ▶ See Instructions for Schedule D (Form 1040).
▶ Use Schedule D-1 for more space to list transactions for lines 1 and 8.

Name(s) shown on Form 1040: *Ivan Investor* Your social security number: *003 25 1099*

12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1.	12			
13 Capital gain distributions. See pages D-1 and D-6	13	<i>4,030</i>	<i>100</i>	
14 Long-term capital loss carryover. Enter in both columns (f) and (g) the amount, if any, from line 13 of your 1997 Capital Loss Carryover Worksheet	14	()	()	
15 Combine lines 8 through 14 in column (g)	15			
16 Net long-term capital gain or (loss). Combine lines 8 through 14 in column (f). ▶	16			

Next: Go to Part III on the back.

* 28% Rate Gain or Loss includes all "collectibles gains and losses" (as defined on page D-4) and part or all of the eligible gain on qualified small business stock (see page D-4).

For Paperwork Reduction Act Notice, see Form 1040 Instructions. Cat. No. 11318H Schedule D (Form 1040) 1998

Part IV Tax Computation Using Maximum Capital Gains Rates

19 Enter your taxable income from Form 1040, line 5a	19			
20 Enter the smaller of line 16 or line 17 of Schedule D	20			
21 If you are filing Form 4952, enter the amount from Form 4952, line 4e	21			
22 Subtract line 21 from line 20. If zero or less, enter -0-	22			
23 Combine lines 20 and 22. If zero or less, enter -0-	23			
24 Enter the smaller of line 15 or line 23, but not less than zero	24			
25 Enter your unrecaptured section 1256 gain, if any (see page D-4)	25	<i>700</i>		
26 Add lines 24 and 25	26			
27 Subtract line 26 from line 22. If zero or less, enter -0-	27			



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LINE 14—LONG-TERM CAPITAL LOSS CARRYOVER

The long-term capital loss carryover from the previous tax year (if any) is reported on line 14 of Schedule D (Form 1040). See the discussion of capital loss carryovers below.

LINE 15—TOTAL 28% RATE GAIN OR LOSS

On line 15, the net gain or loss from lines 8 through 14, column (g) is reported. This is the net 28% rate gain or loss. It is combined with the net short-term gain or loss from line 7 of Schedule D (Form 1040) and the result is reported on line 23 of Schedule D (Form 1040). The amount on line 15 is taxed at the 28% maximum capital gains rate.

LINE 16—TOTAL LOSSES AND GAINS

The net gain or loss from lines 8 through 14, column (f) is reported on line 16 of Schedule D (Form 1040). The amount on line 16 is in Part III of Schedule D (Form 1040) to determine whether there is a net capital gain or loss for the year and in Part IV to apply the maximum capital gains tax rate. See the discussion of Parts III and IV below.

PART III—SUMMARY OF PARTS I AND II

Part III of Schedule D (Form 1040) is designed to combine the net short-term capital gain or loss from Part I with the net long-term capital gain or loss from Part II. While net short-term losses can offset net long-term gains and net short-term gains can offset net long-term losses, the character of a net capital gain or loss must be determined to apply the maximum tax rate on long-term capital gains and the capital loss carryover rules properly. These rules are discussed below.

LINE 17—COMBINE LINES 7 AND 16

Both Losses

If lines 7 and 16 are both losses, the sum of those losses is reported as a negative amount on line 17 of Schedule D (Form 1040).

Loss Greater than Gain

If either line 7 or line 16 is a loss and the other is a gain, but the loss is greater than the gain, the gain is subtracted from the loss and the result is reported as a negative figure on line 17 of Schedule D (Form 1040).

Gain Greater than Loss

If either line 7 or line 16 is a gain and the other is a loss, but the gain is greater than the loss, the loss is subtracted from the gain and the result is reported as a positive figure on line 17 of Schedule D (Form 1040). If the gain is from line 16 of Schedule D (Form 1040), the maximum rate for long-term capital gains may apply. Part IV of Schedule D (Form 1040) applies the maximum capital gains rate.

Both Gains

If both lines 7 and 16 are gains, the gains are added and the sum is reported on line 18. The maximum tax rate on long-term capital gains may apply. Part IV of Schedule D (Form 1040) applies the maximum capital gains rate.

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Line 18—If Line 17 Is a Loss

If line 17 of Schedule D (Form 1040) is a loss, the amount of the loss that can be deducted against ordinary income is limited to \$3,000 (\$1,500 for married filing separately). Any loss in excess of the limit is carried forward to succeeding years, but short- and long-term portions of the carryover must be kept separately, because they are reported separately on the Schedule D (Form 1040) for the next year.

The carryover is calculated on a worksheet in the instructions for Schedule D (Form 1040).

Example 28: Capital Loss Carryover. Sherie Sorensen had a \$4,628 net short-term capital loss [line 7 of Schedule D (Form 1040)] and a \$3,874 net long-term capital loss [line 16, column (f) of Schedule D (Form 1040)] in 1998. Her adjusted gross income reduced by her itemized deductions (line 3 of 1998 Form 1040) was \$72,671.

Sherie's capital loss carryover to 1999 is calculated as shown on the Schedule D (Form 1040) and worksheet in Figure 22.

Observation. The capital loss that is deducted against ordinary income comes first out of short-term capital losses. Therefore, long-term capital loss carryovers will be reduced only after short-term capital losses have been used up.

Figure 22

SCHEDULE D Form 1040		Capital Gains and Losses					OMB No. 1545-0074
Department of the Treasury Internal Revenue Service (99)		▶ Attach to Form 1040. ▶ See instructions for Schedule D (Form 1040). ▶ Use Schedule D-1 for more space to list transactions for lines 1 and 8.					1998
Name(s) shown on Form 1040		Your social security number					Attachment Sequence No. 12
Sherie Sorensen		003 26 1040					
Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less							
(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-3)	(e) Cost or other basis (see page D-4)	(f) GAIN or (LOSS) Subtract (e) from (d)		
7 Net short-term capital gain or (loss). Combine lines 1 through 6 in column (f).					7	4,628	
Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year							
(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-3)	(e) Cost or other basis (see page D-4)	(f) GAIN or (LOSS) Subtract (e) from (d)	(g) 28% RATE GAIN or (LOSS) (see instr. below)	
6 Net long-term capital gain or (loss). Combine lines 8 through 14 in column (f).					16	3,874	
Next: Go to Part III on the back.							
Schedule D (Form 1040) 1998 Page 2							
Part III Summary of Parts I and II							
17 Combine lines 7 and 16. If a loss, go to line 18. If a gain, enter the gain on Form 1040, line 13. Next: Complete Form 1040 through line 39. Then, go to Part IV to figure your tax if:					17	8,502	
<ul style="list-style-type: none"> • Both lines 16 and 17 are gains, and • Form 1040, line 39, is more than zero. 							
18 If line 17 is a loss, enter here and as a (loss) on Form 1040, line 13, the smaller of these losses:					18	(3,000)	
<ul style="list-style-type: none"> • The loss on line 17; or • (\$3,000) or, if married filing separately, (\$1,500) 							
Next: Complete Form 1040 through line 37. Then, complete the Capital Loss Carryover Worksheet on page D-4 if:							
<ul style="list-style-type: none"> • The loss on line 17 exceeds the loss on line 18, or • Form 1040, line 37, is a loss. 							

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Worksheet from Schedule D (Form 1040) Instructions

Capital Loss Carryover Worksheet—Line 18 (keep for your records)



You may deduct capital losses up to the amount of your capital gains plus \$3,000 (\$1,500 if married filing separately). Capital losses that exceed this amount are carried forward to later years. Use this worksheet to figure your capital loss carryovers from 1997 to 1998 if Schedule D, line 18, is a loss and (a) that loss is a smaller loss than the loss on Schedule D, line 17, or (b) Form 1040, line 36, is a loss.

1. Enter the amount from Form 1040, line 36. If a loss, enclose the amount in parentheses	1. <u>72,761</u>
2. Enter the loss from Schedule D, line 18, as a positive amount	2. <u>3,000</u>
3. Combine lines 1 and 2. If zero or less, enter -0-	3. <u>75,761</u>
4. Enter the smaller of line 2 or line 3	4. <u>3,000</u>
<i>Note: If line 7 of Schedule D is a loss, go to line 5; otherwise, enter -0- on line 5 and go to line 9.</i>	
5. Enter the loss from Schedule D, line 7, as a positive amount	5. <u>4,628</u>
6. Enter any gain from Schedule D, line 16	6. <u>-0-</u>
7. Add lines 4 and 6	7. <u>3,000</u>
8. Short-term capital loss carryover to 1998. Subtract line 7 from line 5. If zero or less, enter -0-	8. <u>1,628</u>
<i>Note: If line 16 of Schedule D is a loss, go to line 9; otherwise, skip lines 9 through 13.</i>	
9. Enter the loss from Schedule D, line 16, as a positive amount	9. <u>3,874</u>
10. Enter any gain from Schedule D, line 7	10. <u>-0-</u>
11. Subtract line 5 from line 4. If zero or less, enter -0-	11. <u>-0-</u>
12. Add lines 10 and 11	12. <u>-0-</u>
13. Long-term capital loss carryover to 1998. Subtract line 12 from line 9. If zero or less, enter -0-	13. <u>3,874</u>

PART IV—TAX COMPUTATION USING MAXIMUM CAPITAL GAINS RATES

Part IV of Schedule D (Form 1040) carries out the complicated application of the four different maximum capital gains rates that apply in 1998. The taxpayer's income tax liability is the lesser of:

1. The liability calculated using the regular tax rates, and
2. The liability using the maximum tax rates for each of the different kinds of capital gains.

Part IV computes the regular taxes on the non-capital gain income (line 33) and adds the maximum tax on the gain subject to the 10% rate (line 37), the 20% rate (line 41), the 25% rate (line 47), and the 28% rate (line 51). The sum of those taxes is reported on line 52 and is compared with the regular tax rate on all of the income, which is reported on line 53. The lesser of lines 52 and 53 is reported on line 54 and is carried to line 40 of Form 1040.

Example 29: Tax Computation Using Maximum Capital Gains Rates. Cap and Pearl Gains have \$35,000 of taxable income on line 39 of their 1998 Form 1040, which includes their gain or loss from the sale of the following assets:

Item	Date Acquired	Date Sold	Sales Price	Basis	Gain or (Loss)
100 sh. PQR Co.	12/15/97	7/22/98	\$ 5,000	\$ 4,000	\$ (1,000)
Collectible coins	3/19/81	4/10/98	8,000	35,000	(27,000)
Collectible stamps	2/20/97	5/ 7/98	25,000	22,000	3,000
Warehouse	9/18/78	9/25/98	80,000	15,000 ¹	65,000

¹The warehouse was purchased for \$40,000, of which \$30,000 was allocated to the building and \$10,000 was allocated to the land. \$25,000 of accelerated depreciation was claimed on the warehouse to the date of sale. Straight-line depreciation would have been \$20,000 to the date of sale.

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These transactions are reported on Form 4797 and Schedule D (Form 1040) as follows (see Figure 23). 100 shares of PQR Co. These shares were held for one year or less so the sale is reported on line 1 of Schedule D (Form 1040). The net \$100 short-term capital loss is reported on line 7 of Schedule D (Form 1040) and is combined with the net long-term capital gain reported on line 16 in column (f).

Observation. Note that the net short-term capital loss reduces the amount of long-term capital gain that is carried to line 20 of Schedule D (Form 1040) to be taxed at the lesser of the taxpayers' regular tax rate or the maximum capital gains rate.

Collectible Coins. The \$27,000 loss on the coins is in the 28% rate category, because the coins are collectibles and they were held for more than one year. The loss is reported on line 8 of Schedule D (Form 1040) in both columns (f) and (g).

Collectible Stamps. The loss on the stamps is in the 28% rate category, because the stamps were held for more than a year and are collectibles. The loss from the stamps is reported on line 8 of Schedule D (Form 1040) in both columns (f) and (g).

Observation. Note that in this example the loss from the coins is netted first against the gain from the stamps before it is used to reduce gain subject to the 10% rate.

Warehouse. The warehouse is subject to the \$1250 recapture rules. Therefore, the \$5,000 of accelerated depreciation in excess of the straight-line rate is reported as ordinary income (see line 31 of Form 4797). The remaining \$60,000 of gain is carried from line 7 of Form 4797 to line 11 of Schedule D (Form 1040). That \$60,000 of gain is all long-term capital gain, but \$20,000 of it (an amount equal to the straight-line depreciation) is subject to the 25% capital gains rate, which is reported on line 25 of Schedule D (Form 1040). The remaining \$40,000 of gain is subject to the 20% (10%) capital gains rate. Notice that the \$40,000 of gain is the increase in value of the property over the original \$40,000 purchase price.

Observation. Note that in this example, the \$65,000 of taxable income exceeds the \$35,000 net capital gain by \$30,000. That \$30,000 uses up all but \$12,350 of the 15% bracket. The remaining \$12,350 if the 15% is allocated to 25% rate gain, which is taxed at the lesser 15% or 25%. See lines 32 and 45 of Schedule D (Form 1040). The remaining \$7,650 of the \$20,000 that was subject to the 25% rate is taxed at the lesser of 25% or 28%. See line 46 of Schedule D (Form 1040).

Since the \$30,000 of ordinary income and the \$12,350 of 25% rate gain used up all of the 15% bracket, none of 20% (10%) gain is taxed at the 10% rate. See line 37 of Schedule D (Form 1040). All of the \$15,000 of 20% (10%) gain is taxed at the 20% rate. See line 40 of Schedule D (Form 1040).

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Figure 23

Form 4797 Department of the Treasury Internal Revenue Service (99)	Sales of Business Property (Also Involuntary Conversions and Recapture Amounts Under Sections 179 and 280F(b)(2)) ▶ Attach to your tax return. ▶ See separate instructions.	OMB No. 1545-0184 1997 98 Attachment Sequence No. 27					
Name(s) shown on return Cap and Pearl Gains		Identifying number 003-29-1040					
1 Enter here the gross proceeds from the sale or exchange of real estate reported to you for 1997 on Form(s) 1099-S (or a substitute statement) that you will be including on line 2, 10, or 20 1							
Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft—Property Held More Than 1 Year							
(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) GAIN or (LOSS) for entire year. Subtract (f) from the sum of (d) and (e)	(h) 28% RATE GAIN or (LOSS) * (see instr. below)
2							
3	Gain, if any, from Form 4684, line 39					3	
4	Section 1231 gain from installment sales from Form 6252, line 26 or 37					4	
5	Section 1231 gain or (loss) from like-kind exchanges from Form 8824					5	
6	Gain, if any, from line 32, from other than casualty or theft					6	60,000
7	Combine lines 2 through 6 in columns (g) and (h). Enter gain or (loss) here, and on the appropriate line as follows: Partnerships—Enter the gain or (loss) on Form 1065, Schedule K, lines 6a and 6b. Skip lines 8, 9, 11, and 12 below. S corporations—Report the gain or (loss) following the instructions for Form 1120S, Schedule K, lines 5 and 6. Skip lines 8, 9, 11, and 12 below, unless line 7, column (g) is a gain and the S corporation is subject to the capital gains tax. All others—If line 7, column (g) is zero or a loss, enter that amount on line 11 below and skip lines 8 and 9. If line 7, column (g) is a gain and you did not have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain or (loss) in each column as a long-term capital gain or (loss) on Schedule D and skip lines 8, 9, and 12 below.					7	60,000
Part II Ordinary Gains and Losses							
10 Ordinary gains and losses not included on lines 11 through 17 (include property held 1 year or less):							
11	Loss, if any, from line 7, column (g)					11	
12	Gain, if any, from line 7, column (g) or amount from line 8, column (g) if applicable					12	
13	Gain, if any, from line 31					13	5,000
14	Net gain or (loss) from Form 4684, lines 31 and 30a					14	

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Figure 23

Part III Gain From Disposition of Property Under Sections 1245, 1250, 1252, 1254, and 1255					
19	(a) Description of section 1245, 1250, 1252, 1254, or 1255 property:	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)		
A	Warehouse	9/18/78	9/25/98		
B					
C					
D					
These columns relate to the properties on lines 19A through 19D. ▶		Property A	Property B	Property C	Property D
20	Gross sales price (Note: See line 1 before completing)	20 80,000			
21	Cost or other basis plus expense of sale	21 40,000			
22	Depreciation (or depletion) allowed or allowable	22 25,000			
23	Adjusted basis. Subtract line 22 from line 21	23 15,000			
24	Total gain. Subtract line 23 from line 20	24 65,000			
25	If section 1245 property:				
a	Depreciation allowed or allowable from line 22	25a			
b	Enter the smaller of line 24 or 25a	25b			
26	If section 1250 property: If straight line depreciation was used, enter -0- on line 26g, except for a corporation subject to section 291.				
a	Additional depreciation after 1975 (see instructions)	26a 5,000			
b	Applicable percentage multiplied by the smaller of line 24 or line 26a (see instructions)	26b 5,000			
c	Subtract line 26a from line 24. If residential rental property or line 24 is not more than line 26a, skip lines 26d and 26e	26c 60,000			
d	Additional depreciation after 1969 and before 1976	26d -0-			
e	Enter the smaller of line 26c or 26d	26e -0-			
f	Section 291 amount (corporations only)	26f			
g	Add lines 26b, 26e, and 26f	26g 5,000			
Summary of Part III Gains. Complete property columns A through D through line 29b before going to line 30.					
30	Total gains for all properties. Add property columns A through D, line 24	30 65,000			
31	Add property columns A through D, lines 25b, 26g, 27c, 28b, and 29b. Enter here and on line 13	31 5,000			
32	Subtract line 31 from line 30. Enter the portion from casualty or theft on Form 4684, line 33. Enter the portion from other than casualty or theft on Form 4797, line 5, column (g), and if applicable, column (h)	32 60,000			
Part IV Recapture Amounts Under Sections 179 and 280F(b)(2) When Business Use Drops to 50% or Less See instructions.					
		(a) Section 179	(b) Section 280F(b)(2)		
33	Section 179 expense deduction or depreciation allowable in prior years	33			
34	Recomputed depreciation. See instructions	34			
35	Recapture amount. Subtract line 34 from line 33. See the instructions for where to report	35			

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**SCHEDULE D
(Form 1040)**

Department of the Treasury
Internal Revenue Service (998)
Name(s) shown on Form 1040

Capital Gains and Losses

▶ Attach to Form 1040. ▶ See instructions for Schedule D (Form 1040).
▶ Use Schedule D-1 for more space to list transactions for lines 1 and 8.

OMB No. 1545-0074

1998

Attachment
Sequence No. 12

Cap and Pearl Gains

Your social security number
003 29 1040

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-3)	(e) Cost or other basis (see page D-4)	(f) GAIN or (LOSS) Subtract (e) from (d)	(g) 28% RATE GAIN or (LOSS) (see instr. below)
10 sh. PQR Co.	12/15/97	7/22/98	5,000	4,000	<1,000>	
2 Enter your short-term totals, if any, from Schedule D-1, line 2					2	
3 Total short-term sales price amounts. Add column (d) of lines 1 and 2					3	
4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824					4	
5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1					5	
6 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your 1997 Capital Loss Carryover Worksheet					6	
7 Net short-term capital gain or (loss). Combine lines 1 through 6 in column (f)					7	<1,000>

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-3)	(e) Cost or other basis (see page D-4)	(f) GAIN or (LOSS) Subtract (e) from (d)	(g) 28% RATE GAIN or (LOSS) (see instr. below)
8 collectible coins	3/19/81	4/10/98	8,000	35,000	<27,000>	<27,000>
collectible stamps	2/20/97	5/7/98	25,000	22,000	3,000	3,000
9 Enter your long-term totals, if any, from Schedule D-1, line 9					9	
10 Total long-term sales price amounts. Add column (d) of lines 8 and 9					10	33,000
11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824					11	60,000
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1					12	
13 Capital gain distributions. See pages D-1 and D-6					13	
14 Long-term capital loss carryover. Enter in both columns (f) and (g) the amount, if any, from line 13 of your 1997 Capital Loss Carryover Worksheet					14	
15 Combine lines 8 through 14 in column (g)					15	<24,000>
16 Net long-term capital gain or (loss). Combine lines 8 through 14 in column (f)					16	36,000

* 28% Rate Gain or Loss includes all "collectibles gains and losses" (as defined on page D-4) and part or all of the eligible gain on qualified small business stock (see page D-4).

For Paperwork Reduction Act Notice, see Form 1040 instructions.

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Part III Summary of Parts I and II

17	Combine lines 7 and 16. If a loss, go to line 18. If a gain, enter the gain on Form 1040, line 13 Next: Complete Form 1040 through line 39. Then, go to Part IV to figure your tax if: • Both lines 16 and 17 are gains, and • Form 1040, line 39, is more than zero.	17	35,000
18	If line 17 is a loss, enter here and as a (loss) on Form 1040, line 13, the smaller of these losses: • The loss on line 17; or • (\$3,000) or, if married filing separately, (\$1,500) Next: Complete Form 1040 through line 37. Then, complete the Capital Loss Carryover Worksheet on page D-4 if: • The loss on line 17 exceeds the loss on line 18, or • Form 1040, line 37, is a loss.	18	()

Part IV Tax Computation Using Maximum Capital Gains Rates

19	Enter your taxable income from Form 1040, line 44	19	65,000
20	Enter the smaller of line 16 or line 17 of Schedule D	20	35,000
21	If you are filing Form 4952, enter the amount from Form 4952, line 4e	21	
22	Subtract line 21 from line 20. If zero or less, enter -0-	22	35,000
23	Combine lines 7 and 15. If zero or less, enter -0-	23	-0-
24	Enter the smaller of line 15 or line 23, but not less than zero	24	-0-
25	Enter your unrecaptured section 1251 gain, if any (see page D-4)	25	20,000
26	Add lines 24 and 25	26	20,000
27	Subtract line 26 from line 22. If zero or less, enter -0-	27	15,000
28	Subtract line 27 from line 19. If zero or less, enter -0-	28	50,000
29	Enter the smaller of: • The amount on line 19, or • \$25,350 if single; \$42,350 if married filing jointly or qualifying widow(er); \$21,175 if married filing separately; or \$33,950 if head of household	29	42,350
30	Enter the smaller of line 28 or line 29	30	42,350
31	Subtract line 22 from line 19. If zero or less, enter -0-	31	30,000
32	Enter the larger of line 30 or line 31	32	42,350
33	Figure the tax on the amount on line 32. Use the Tax Table or Tax Rate Schedules, whichever applies	33	6,360
34	Enter the amount from line 29	34	42,350
35	Enter the amount from line 28	35	50,000
36	Subtract line 35 from line 34. If zero or less, enter -0-	36	-0-
37	Multiply line 36 by 10% (.10)	37	-0-
38	Enter the smaller of line 19 or line 27	38	15,000
39	Enter the amount from line 36	39	-0-
40	Subtract line 39 from line 38	40	15,000
41	Multiply line 40 by 20% (.20)	41	3,000
42	Enter the smaller of line 22 or line 25	42	20,000
43	Add lines 22 and 32	43	77,350
44	Enter the amount from line 19	44	65,000
45	Subtract line 44 from line 43. If zero or less, enter -0-	45	12,350
46	Subtract line 45 from line 42. If zero or less, enter -0-	46	7,650
47	Multiply line 46 by 25% (.25)	47	1,913
48	Enter the amount from line 19	48	65,000
49	Add lines 32, 36, 40, and 46	49	65,000
50	Subtract line 49 from line 48	50	-0-
51	Multiply line 50 by 28% (.28)	51	-0-
52	Add lines 33, 37, 41, 47, and 51	52	11,273
53	Figure the tax on the amount on line 19. Use the Tax Table or Tax Rate Schedules, whichever applies	53	12,702
54	Tax on taxable income including capital gains. Enter the smaller of line 52 or line 53 here and on Form 1040, line 40	54	11,273

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