Chapter 3: Capital Gains and Losses

3

Corrections were made to this workbook through January of 2015. No subsequent modifications were made.

This chapter is designed to assist the tax professional in gaining a basic understanding of Schedule D, *Capital Gains and Losses*, and Form 8949, *Sales and Other Dispositions of Capital Assets*. Related forms, schedules, and worksheets are also discussed. The capital gains tax rates and other important issues relating to the disposition of capital assets are included in the chapter.

REPORTING THE DISPOSITION OF CAPITAL ASSETS

SCHEDULE D

Schedule D is used to report the sale or exchange of a capital asset not reported on another schedule, as well as capital gain distributions, nonbusiness bad debts, and gains from involuntary conversions (other than from casualty or theft) of capital assets that are not held for business or profit.[1] The following are reported on Schedule D.[2]

- The overall gain or loss from transactions reported on Form 8949
- Certain transactions not required to be reported on Form 8949
- Capital gain distributions not reported directly on Form 1040, line 13
- Capital loss carryovers
- Capital gain or loss from an S corporation, partnership, estate, or trust
- A gain from Form 2439, *Notice to Shareholder of Undistributed Long-Term Capital Gains,* or Form 6252, *Installment Sale Income,* or from part I of Form 4797, *Sales of Business Property*
- A gain or loss from Form 4684, *Casualties and Thefts;* Form 6781, *Gains and Losses From Section 1256 Contracts and Straddles;* or Form 8824, *Like-Kind Exchanges*

A blank Schedule D is shown on the following pages. Line numbers and sections are referred to throughout this chapter.

1. *Schedule D (Form 1040), Capital Gains and Losses.* [http://www.irs.gov/uac/Schedule-D-(Form-1040),-Capital-Gains-and-Losses] Accessed on Jun. 23, 2014.
2. Instructions for Schedule D.

SCHEDULE D (Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Capital Gains and Losses

▶ Attach to Form 1040 or Form 1040NR.
▶ Information about Schedule D and its separate instructions is at *www.irs.gov/scheduled*.
▶ Use Form 8949 to list your transactions for lines 1b, 2, 3, 8b, 9, and 10.

OMB No. 1545-0074

2013

Attachment Sequence No. 12

Name(s) shown on return | **Your social security number**

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

See instructions for how to figure the amounts to enter on the lines below. This form may be easier to complete if you round off cents to whole dollars.	(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part I, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)
1a Totals for all short-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 1b .				
1b Totals for all transactions reported on Form(s) 8949 with **Box A** checked				
2 Totals for all transactions reported on Form(s) 8949 with **Box B** checked				
3 Totals for all transactions reported on Form(s) 8949 with **Box C** checked				

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 **Capital Loss Carryover Worksheet** in the instructions	6	( )
7 **Net short-term capital gain or (loss).** Combine lines 1a through 6 in column (h). If you have any long-term capital gains or losses, go to Part II below. Otherwise, go to Part III on the back	7	

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

See instructions for how to figure the amounts to enter on the lines below. This form may be easier to complete if you round off cents to whole dollars.	(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part II, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)
8a Totals for all long-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 8b .				
8b Totals for all transactions reported on Form(s) 8949 with **Box D** checked				
9 Totals for all transactions reported on Form(s) 8949 with **Box E** checked				
10 Totals for all transactions reported on Form(s) 8949 with **Box F** checked.				

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	
13 Capital gain distributions. See the instructions	13	
14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your **Capital Loss Carryover Worksheet** in the instructions	14	( )
15 **Net long-term capital gain or (loss).** Combine lines 8a through 14 in column (h). Then go to Part III on the back	15	

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 11338H **Schedule D (Form 1040) 2013**

Part III Summary

16	Combine lines 7 and 15 and enter the result	**16**	
	• If line 16 is a **gain,** enter the amount from line 16 on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 17 below. • If line 16 is a **loss,** skip lines 17 through 20 below. Then go to line 21. Also be sure to complete line 22. • If line 16 is **zero,** skip lines 17 through 21 below and enter -0- on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 22.		
17	Are lines 15 and 16 **both** gains? ☐ **Yes.** Go to line 18. ☐ **No.** Skip lines 18 through 21, and go to line 22.		
18	Enter the amount, if any, from line 7 of the **28% Rate Gain Worksheet** in the instructions . . ▶	**18**	
19	Enter the amount, if any, from line 18 of the **Unrecaptured Section 1250 Gain Worksheet** in the instructions . . . . ▶	**19**	
20	Are lines 18 and 19 **both** zero or blank? ☐ **Yes.** Complete the **Qualified Dividends and Capital Gain Tax Worksheet** in the instructions for Form 1040, line 44 (or in the instructions for Form 1040NR, line 42). **Do not** complete lines 21 and 22 below. ☐ **No.** Complete the **Schedule D Tax Worksheet** in the instructions. **Do not** complete lines 21 and 22 below.		
21	If line 16 is a loss, enter here and on Form 1040, line 13, or Form 1040NR, line 14, the **smaller** of: • The loss on line 16 or • ($3,000), or if married filing separately, ($1,500) . . . . **Note.** When figuring which amount is smaller, treat both amounts as positive numbers.	**21**	( )
22	Do you have qualified dividends on Form 1040, line 9b, or Form 1040NR, line 10b? ☐ **Yes.** Complete the **Qualified Dividends and Capital Gain Tax Worksheet** in the instructions for Form 1040, line 44 (or in the instructions for Form 1040NR, line 42). ☐ **No.** Complete the rest of Form 1040 or Form 1040NR.		

FORM 8949

The IRS recently released a form that taxpayers must use to report most capital gains and losses from transactions involving investment property. In previous years, these transactions were reported directly on Schedule D, but beginning in tax year 2011, taxpayers were required to use Form 8949, *Sales and Other Dispositions of Capital Assets*. Totals from Form 8949 flow to Schedule D.

Individuals use Form 8949 to report the following.[3]

- The sale or exchange of a capital asset that is not reported on another form or schedule
- Gains from involuntary conversions (other than from casualty or theft) of capital assets not held for business or profit
- Nonbusiness bad debts

Form 8949 should be completed before lines 1b, 2, 3, 8b, 9, or 10 of the Schedule D. Starting with 2013, certain transactions can now be combined and the totals can be reported on Schedule D without completing a Form 8949. More information about this exception is provided in the "Preparation of Form 8949" section of this chapter**.**

Form 8949 is also used by corporations, partnerships, estates, and trusts. However, the use of Form 8949 for these entities is not discussed here because this chapter focuses on individual tax issues.

Line numbers and sections of Form 8949, which follows, are referred to throughout this chapter.

3. Instructions for Form 8949.

Form **8949**

Department of the Treasury
Internal Revenue Service

Sales and Other Dispositions of Capital Assets

▶ Information about Form 8949 and its separate instructions is at *www.irs.gov/form8949.*

▶ File with your Schedule D to list your transactions for lines 1b, 2, 3, 8b, 9, and 10 of Schedule D.

OMB No. 1545-0074

2013

Attachment Sequence No. **12A**

Name(s) shown on return | **Social security number or taxpayer identification number**

Most brokers issue their own substitute statement instead of using Form 1099-B. They also may provide basis information (usually your cost) to you on the statement even if it is not reported to the IRS. Before you check Box A, B, or C below, determine whether you received any statement(s) and, if so, the transactions for which basis was reported to the IRS. Brokers are required to report basis to the IRS for most stock you bought in 2011 or later.

Part I **Short-Term.** Transactions involving capital assets you held one year or less are short term. For long-term transactions, see page 2.

Note. You may aggregate all short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the total directly on Schedule D, line 1a; you are not required to report these transactions on Form 8949 (see instructions).

You *must* check Box A, B, *or* C below. Check only one box. If more than one box applies for your short-term transactions, complete a separate Form 8949, page 1, for each applicable box. If you have more short-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

☐ **(A)** Short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see **Note** above)

☐ **(B)** Short-term transactions reported on Form(s) 1099-B showing basis was **not** reported to the IRS

☐ **(C)** Short-term transactions not reported to you on Form 1099-B

1 **(a)** Description of property (Example: 100 sh. XYZ Co.)	**(b)** Date acquired (Mo., day, yr.)	**(c)** Date sold or disposed (Mo., day, yr.)	**(d)** Proceeds (sales price) (see instructions)	**(e)** Cost or other basis. See the **Note** below and see *Column (e)* in the separate instructions	**Adjustment, if any, to gain or loss.** If you enter an amount in column (g), enter a code in column (f). **See the separate instructions.** **(f)** Code(s) from instructions	**(g)** Amount of adjustment	**(h)** **Gain or (loss).** Subtract column (e) from column (d) and combine the result with column (g)
2 Totals. Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, **line 1b** (if **Box A** above is checked), **line 2** (if **Box B** above is checked), or **line 3** (if **Box C** above is checked) ▶							

Note. If you checked Box A above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter an adjustment in column (g) to correct the basis. See *Column (g)* in the separate instructions for how to figure the amount of the adjustment.

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 37768Z Form **8949** (2013)

Form 8949 (2013) Attachment Sequence No. **12A** Page **2**

Name(s) shown on return. (Name and SSN or taxpayer identification no. not required if shown on other side.)	**Social security number or taxpayer identification number**

Most brokers issue their own substitute statement instead of using Form 1099-B. They also may provide basis information (usually your cost) to you on the statement even if it is not reported to the IRS. Before you check Box D, E, or F below, determine whether you received any statement(s) and, if so, the transactions for which basis was reported to the IRS. Brokers are required to report basis to the IRS for most stock you bought in 2011 or later.

Part II **Long-Term.** Transactions involving capital assets you held more than one year are long term. For short-term transactions, see page 1.

Note. You may aggregate all long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the total directly on Schedule D, line 8a; you are not required to report these transactions on Form 8949 (see instructions).

You *must* check Box D, E, *or* F below. Check only one box. If more than one box applies for your long-term transactions, complete a separate Form 8949, page 2, for each applicable box. If you have more long-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

☐ **(D)** Long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see **Note** above)
☐ **(E)** Long-term transactions reported on Form(s) 1099-B showing basis was **not** reported to the IRS
☐ **(F)** Long-term transactions not reported to you on Form 1099-B

1 **(a)** Description of property (Example: 100 sh. XYZ Co.)	**(b)** Date acquired (Mo., day, yr.)	**(c)** Date sold or disposed (Mo., day, yr.)	**(d)** Proceeds (sales price) (see instructions)	**(e)** Cost or other basis. See the **Note** below and see *Column (e)* in the separate instructions	**Adjustment, if any, to gain or loss.** If you enter an amount in column (g), enter a code in column (f). **See the separate instructions.** **(f)** Code(s) from instructions	**(g)** Amount of adjustment	**(h)** **Gain or (loss).** Subtract column (e) from column (d) and combine the result with column (g)
2 Totals. Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, **line 8b** (if **Box D** above is checked), **line 9** (if **Box E** above is checked), or **line 10** (if **Box F** above is checked) ▶							

Note. If you checked Box D above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter an adjustment in column (g) to correct the basis. See *Column (g)* in the separate instructions for how to figure the amount of the adjustment.

Form **8949** (2013)

CAPITAL ASSET CONCEPTS

BASIS

For tax purposes, basis is the amount of the taxpayer's investment in property, which is usually the cost of the property. The tax basis is needed to determine the gain or loss when the taxpayer sells or disposes of the property. Therefore, it is important to keep records of the cost of the property to accurately determine the gain or loss when it is sold. The cost includes not only the cash paid but also debt obligations, other property, or services. Cost also includes amounts paid for the following items.[4]

- Sales tax
- Freight
- Installation and testing costs
- Excise taxes
- Legal and accounting fees (when they must be capitalized)
- Revenue stamps
- Recording fees
- Real estate taxes (if assumed for the seller)

The original basis in property is adjusted by certain items. If the taxpayer makes improvements to the property, the basis is increased. If the taxpayer takes deductions for depreciation or casualty losses, the basis is reduced. Before determining any gain or loss on a sale, exchange, or other disposition of property, all necessary adjustments must be taken into account.

> **Note.** A detailed discussion of basis is beyond the scope of this chapter. For more information, see IRS Pub. 551, *Basis of Assets,* and the 2009 *University of Illinois Federal Tax Workbook,* Chapter 5: Calculating Basis. This chapter is available at **www.taxschool.illinois.edu/taxbookarchive.**

CAPITAL ASSET

Almost everything owned and used for personal purposes or investment is considered a capital asset. Examples of capital assets include stocks, bonds, homes, household furnishings, and automobiles. A capital asset is any property owned by the taxpayer **except** the following.[5]

1. Stock in trade or other property included in inventory or held mainly for sale to customers
2. Accounts or notes receivable for services performed in the ordinary course of the taxpayer's trade or business, for services rendered as an employee, or from the sale of stock in trade or other property held mainly for sale to customers
3. Depreciable property used in the taxpayer's trade or business
4. Real estate used in the taxpayer's trade or business

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4. IRS Pub. 551, *Basis of Assets.*
5. Instructions for Schedule D.

5. A copyright; literary, musical, or artistic composition; letter or memorandum; or similar property that is:
   a. Created by the taxpayer's personal efforts,
   b. Prepared or produced for the taxpayer (in the case of a letter, memorandum, or similar property), or
   c. Received under circumstances (such as by gift) that entitle the taxpayer to the basis of the person who created the property or for whom the property was prepared or produced
6. A U.S. government publication, including the Congressional Record, that the taxpayer received from the government for less than the normal sales price, or that the taxpayer received under circumstances that entitle the taxpayer to the basis of someone who received the publication for less than the normal sales price
7. Certain commodities derivative financial instruments held by a dealer and connected to the dealer's activities as a dealer[6]
8. Certain hedging transactions entered into in the normal course of the taxpayer's trade or business[7]
9. Supplies regularly used in the taxpayer's trade or business

CAPITAL GAINS AND LOSSES

When a capital asset is sold, the difference between the asset's basis and its sales price is a capital gain or loss. A taxpayer's capital gains and losses are treated differently than ordinary income and losses on a tax return.

If a capital asset is owned for more than one year before it is sold, the gain or loss on that sale is long-term. If a capital asset is owned for one year or less before being sold, the gain or loss is considered short-term. **The period that the asset is held starts the day after a capital asset is acquired and ends on the day it is sold.[8]** If the capital asset is a publicly traded investment such as stock traded on the New York Stock Exchange, the holding period begins the day after the trade date and ends on the sale date.[9]

> **Example 1.** Georgette bought shares of a stock on December 1, 2013. She sold the stock on December 2, 2014. Her holding period for the stock began on December 2, 2013. Therefore, Georgette held the stock for longer than one year.

Short-term gains or losses are reported in part I of Schedule D. Long-term gains and losses are reported in part II of Schedule D.

Capital Loss Carryovers

Under capital gains tax rules, capital losses can generally only be used to offset capital gains.[10] However, for taxpayers other than corporations, up to $3,000 of net capital losses ($1,500 for MFS taxpayers) can be used to offset ordinary income each tax year.[11] Capital losses that cannot be deducted in the current tax year can be carried forward to future years for use against capital gains in those years.[12] Special tax calculations determine the amount of capital losses available for carry over to the succeeding tax year.[13]

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6. See IRC §1221(a)(6).
7. See IRC §1221(a)(7).
8. *Topic 409 — Capital Gains and Losses*. [www.irs.gov/taxtopics/tc409.html] Accessed on Mar. 19, 2014.
9. IRS Pub. 17, *Your Federal Income Tax*.
10. IRC §1211(b).
11. IRC §1211(b)(1).
12. IRC §1212(b).
13. IRC §1212(b)(2).

If a taxpayer and their spouse filed separate returns and are now filing a joint return, their separate capital loss carryovers should be combined. However, if the spouses once filed a joint return and are now filing separate returns, any capital loss carryover from the joint return can only be deducted on the return of the spouse who actually incurred the loss.[14] If the underlying asset is jointly owned, the loss is split between the two taxpayers.

LONG-TERM CAPITAL GAINS TAX RATES

Net capital gains may be taxed at a lower tax rate than the taxpayer's ordinary income tax rates. A "net capital gain" is the amount by which the taxpayer's net long-term capital gain for the year exceeds their net short-term capital loss for the year. The term "net long-term capital gain" means long-term capital gains reduced by long-term capital losses, which includes any unused long-term capital loss carried over from previous years.[15]

The tax rate for most long-term capital gains ranges from 0% to 20%. Beginning in 2013, a new 20% rate applies to net capital gains and qualified dividends to the extent that a taxpayer's taxable income exceeds the thresholds for the 39.6% bracket.

The following table summarizes the 2013 and 2014 capital gains rates for individuals.

Ordinary Income Tax Rate	Filing Status	2013 Income Amount	2014 Income Amount	Capital Gains Rate
Below top of 15% bracket	Single	$ 0– 36,250	$ 0– 36,900	0%
	HoH	0– 48,600	0– 49,400	
	MFJ and QW	0– 72,500	0– 73,800	
	MFS	0– 36,250	0– 36,900	
Above top of 15% bracket and below threshold of 39.6% bracket	Single	36,251–400,000	36,901–406,750	15%
	HoH	48,601–425,000	49,401–432,200	
	MFJ and QW	72,501–450,000	73,801–457,600	
	MFS	36,251–225,000	36,901–228,800	
Above threshold for 39.6% bracket	Single	Above 400,000	Above 406,750	20%
	HoH	Above 425,000	Above 432,200	
	MFJ and QW	Above 450,000	Above 457,600	
	MFS	Above 225,000	Above 228,800	

Capital gains may also be taxed at rates greater than 20% for certain types of income.

- The maximum rate is 25% for unrecaptured IRC §1250 gain.
- The maximum rate is 28% for gain from collectibles (such as coins or art) and from IRC §1202 qualified small business stock (QSBS).

Note. Net short-term capital gains are taxed at ordinary income tax rates.

14. IRS Pub. 17, *Your Federal Income Tax.*

15. *Topic 409 — Capital Gains and Losses.* [www.irs.gov/taxtopics/tc409.html] Accessed on Mar. 19, 2014.

Example 2. In 2013, Sue is a single taxpayer with wage income of $30,000 and interest income of $700. Sue purchased stock in 2005 for $2,500 and sold it in 2013 for $7,300. Therefore, Sue has a long-term capital gain of $4,800 ($7,300 − $2,500). Sue's taxable income, including the capital gain, is $25,500 ($30,000 wage income + $700 interest income + $4,800 capital gain − $6,100 standard deduction − $3,900 personal exemption). Because her taxable income falls below the top of the 15% ordinary income tax bracket, the $4,800 capital gain is subject to the 0% capital gains rate.

Example 3. John and Mary are married and file a joint tax return for 2013. They have one dependent child. John has wage income of $27,000 and Mary has wage income of $25,000. The couple has interest, rental, and other ordinary income totaling $5,000. After holding 10 acres of land for 12 years, John and Mary sold it in 2013 for a gain of $50,000.

Their taxable income is calculated as follows.

John's wages	$27,000
Mary's wages	25,000
Other ordinary income	5,000
Long-term capital gain on sale of land	50,000
Itemized deductions	(18,000)
Personal exemptions ($3,900 × 3)	(11,700)
Taxable income	$77,300

John and Mary's taxable income exceeds the top of the 15% ordinary income tax bracket because of the $50,000 capital gain. The portion of capital gain that falls in the 10% and 15% ordinary tax brackets is $45,200 (see the following worksheet) and it is taxed at 0%. The remaining capital gain of $4,800 ($50,000 − $45,200) is taxed at the 15% capital gains rate.

John and Mary's tax liability can be computed using the Qualified Dividends and Capital Gain Tax Worksheet, as follows.[16]

16. *Qualified Dividends and Capital Gain Tax Worksheet — Line 44.* [apps.irs.gov/app/vita/content/globalmedia/capital_gain_tax_worksheet_1040i.pdf] Accessed on Mar. 19, 2014.

For Example 3

Qualified Dividends and Capital Gain Tax Worksheet—Line 44

Keep for Your Records

Before you begin:
- √ See the earlier instructions for line 44 to see if you can use this worksheet to figure your tax.
- √ Before completing this worksheet, complete Form 1040 through line 43.
- √ If you do not have to file Schedule D and you received capital gain distributions, be sure you checked the box on line 13 of Form 1040.

1.	Enter the amount from Form 1040, line 43. However, if you are filing Form 2555 or 2555-EZ (relating to foreign earned income), enter the amount from line 3 of the Foreign Earned Income Tax Worksheet . . . . **1.**		77,300	
2.	Enter the amount from Form 1040, line 9b* . . . . **2.**	0		
3.	Are you filing Schedule D?* ☒ **Yes.** Enter the **smaller** of line 15 or 16 of Schedule D. If either line 15 or line 16 is blank or a loss, enter -0- ☐ **No.** Enter the amount from Form 1040, line 13 **3.**	50,000		
4.	Add lines 2 and 3 . . . . **4.**	50,000		
5.	If filing Form 4952 (used to figure investment interest expense deduction), enter any amount from line 4g of that form. Otherwise, enter -0- . . . . **5.**	0		
6.	Subtract line 5 from line 4. If zero or less, enter -0- . . . . **6.**		50,000	
7.	Subtract line 6 from line 1. If zero or less, enter -0- . . . . **7.**		27,300	
8.	Enter: $36,250 if single or married filing separately, $72,500 if married filing jointly or qualifying widow(er), $48,600 if head of household. . . . . **8.**		72,500	
9.	Enter the smaller of line 1 or line 8 . . . . **9.**		72,500	
10.	Enter the smaller of line 7 or line 9 . . . . **10.**		27,300	
11.	Subtract line 10 from line 9. This amount is taxed at 0% . . . . . . **11.**		45,200	
12.	Enter the smaller of line 1 or line 6 . . . . **12.**		50,000	
13.	Enter the amount from line 11 . . . . **13.**		45,200	
14.	Subtract line 13 from line 12 . . . . **14.**		4,800	
15.	Enter: $400,000 if single, $225,000 if married filing separately, $450,000 if married filing jointly or qualifying widow(er), $425,000 if head of household. . . . . **15.**		450,000	
16.	Enter the smaller of line 1 or line 15 . . . . **16.**		77,300	
17.	Add lines 7 and 11 . . . . **17.**		72,500	
18.	Subtract line 17 from line 16. If zero or less, enter -0- . . . . . . **18.**		4,800	
19.	Enter the smaller of line 14 or line 18 . . . . **19.**		4,800	
20.	Multiply line 19 by 15% (.15) . . . . **20.**			720
21.	Add lines 11 and 19 . . . . **21.**		50,000	
22.	Subtract line 21 from line 12 . . . . **22.**		0	
23.	Multiply line 22 by 20% (.20) . . . . **23.**			0
24.	Figure the tax on the amount on line 7. If the amount on line 7 is less than $100,000, use the Tax Table to figure the tax. If the amount on line 7 is $100,000 or more, use the Tax Computation Worksheet . . . . **24.**			3,206
25.	Add lines 20, 23, and 24 . . . . **25.**			3,926
26.	Figure the tax on the amount on line 1. If the amount on line 1 is less than $100,000, use the Tax Table to figure the tax. If the amount on line 1 is $100,000 or more, use the Tax Computation Worksheet . . . . **26.**			11,189
27.	**Tax on all taxable income.** Enter the **smaller** of line 25 or line 26. Also include this amount on Form 1040, line 44. If you are filing Form 2555 or 2555-EZ, do not enter this amount on Form 1040, line 44. Instead, enter it on line 4 of the Foreign Earned Income Tax Worksheet . . . . **27.**			3,926

**If you are filing Form 2555 or 2555-EZ, see the footnote in the Foreign Earned Income Tax Worksheet before completing this line.*

Example 4. Jacob and Emily are married and file a joint tax return in 2013. They have no dependents and take the standard deduction of $12,200. Jacob has wage income of $90,000 and Emily has wage income of $5,000. They have interest and other ordinary income of $5,000. They sold their vacation home in 2013 and had a long-term capital gain of $25,000.

Their taxable income is calculated as follows.

Jacob's wages	$ 90,000
Emily's wages	5,000
Other ordinary income	5,000
Long-term capital gain on sale of vacation home	25,000
Standard deduction	(12,200)
Personal exemptions ($3,900 × 2)	(7,800)
Taxable income	$105,000

Jacob and Emily's taxable income minus their capital gain is $80,000. This amount is above the top of the 15% ordinary income tax bracket. Therefore, none of the capital gain is taxed at 0% (see following worksheet). Their income is below the threshold for the 39.6% income tax bracket, so their capital gain is taxed at 15%.

Jacob and Emily's tax liability can be computed using the Qualified Dividends and Capital Gain Tax Worksheet, as follows.[17]

17. *Qualified Dividends and Capital Gain Tax Worksheet — Line 44.* [apps.irs.gov/app/vita/content/globalmedia/capital_gain_tax_worksheet_1040i.pdf] Accessed on Mar. 19, 2014.

For Example 4

Qualified Dividends and Capital Gain Tax Worksheet—Line 44

Keep for Your Records

Before you begin:
- ✓ See the earlier instructions for line 44 to see if you can use this worksheet to figure your tax.
- ✓ Before completing this worksheet, complete Form 1040 through line 43.
- ✓ If you do not have to file Schedule D and you received capital gain distributions, be sure you checked the box on line 13 of Form 1040.

1.	Enter the amount from Form 1040, line 43. However, if you are filing Form 2555 or 2555-EZ (relating to foreign earned income), enter the amount from line 3 of the Foreign Earned Income Tax Worksheet	1.		105,000	
2.	Enter the amount from Form 1040, line 9b*	2.	0		
3.	Are you filing Schedule D?* ☒ **Yes.** Enter the **smaller** of line 15 or 16 of Schedule D. If either line 15 or line 16 is blank or a loss, enter -0- ☐ **No.** Enter the amount from Form 1040, line 13	3.	25,000		
4.	Add lines 2 and 3	4.	25,000		
5.	If filing Form 4952 (used to figure investment interest expense deduction), enter any amount from line 4g of that form. Otherwise, enter -0-	5.	0		
6.	Subtract line 5 from line 4. If zero or less, enter -0-	6.		25,000	
7.	Subtract line 6 from line 1. If zero or less, enter -0-	7.		80,000	
8.	Enter: $36,250 if single or married filing separately, $72,500 if married filing jointly or qualifying widow(er), $48,600 if head of household.	8.		72,500	
9.	Enter the smaller of line 1 or line 8	9.		72,500	
10.	Enter the smaller of line 7 or line 9	10.		72,500	
11.	Subtract line 10 from line 9. This amount is taxed at 0%	11.		0	
12.	Enter the smaller of line 1 or line 6	12.		25,000	
13.	Enter the amount from line 11	13.		0	
14.	Subtract line 13 from line 12	14.		25,000	
15.	Enter: $400,000 if single, $225,000 if married filing separately, $450,000 if married filing jointly or qualifying widow(er), $425,000 if head of household.	15.		450,000	
16.	Enter the smaller of line 1 or line 15	16.		105,000	
17.	Add lines 7 and 11	17.		80,000	
18.	Subtract line 17 from line 16. If zero or less, enter -0-	18.		25,000	
19.	Enter the smaller of line 14 or line 18	19.		25,000	
20.	Multiply line 19 by 15% (.15)	20.			3,750
21.	Add lines 11 and 19	21.		25,000	
22.	Subtract line 21 from line 12	22.		0	
23.	Multiply line 22 by 20% (.20)	23.			0
24.	Figure the tax on the amount on line 7. If the amount on line 7 is less than $100,000, use the Tax Table to figure the tax. If the amount on line 7 is $100,000 or more, use the Tax Computation Worksheet	24.			11,864
25.	Add lines 20, 23, and 24	25.			15,614
26.	Figure the tax on the amount on line 1. If the amount on line 1 is less than $100,000, use the Tax Table to figure the tax. If the amount on line 1 is $100,000 or more, use the Tax Computation Worksheet	26.			18,108
27.	**Tax on all taxable income.** Enter the **smaller** of line 25 or line 26. Also include this amount on Form 1040, line 44. If you are filing Form 2555 or 2555-EZ, do not enter this amount on Form 1040, line 44. Instead, enter it on line 4 of the Foreign Earned Income Tax Worksheet	27.			15,614

**If you are filing Form 2555 or 2555-EZ, see the footnote in the Foreign Earned Income Tax Worksheet before completing this line.*

Unrecaptured IRC §1250 Gain

IRC §1250 property includes all depreciable real property that is not subject to IRC §1245. IRC §1250 property consists of three types of depreciable real property.

1. Intangible real property (e.g., a leasehold of land)
2. Buildings and their structural components
3. All other tangible real property **except:**
   a. Property used as an integral part of a specified activity or as a specified facility, or
   b. Single-purpose agricultural or horticultural structures

The gain realized on a §1250 asset may be subject to three different tax treatments.

1. The portion of the gain attributable to accumulated depreciation allowed or allowable using the straight-line method is called the **unrecaptured gain** and is **taxed at a maximum rate of 25%.**
2. The portion attributable to accumulated depreciation **in excess** of the straight-line method is called the **recaptured gain** and is taxed as ordinary income. For example, bonus depreciation can cause accumulated depreciation to exceed the amount allowed under the straight-line method.
3. The portion in excess of the original cost basis is treated as capital gain.

Note. The recapture rules vary according to the date the property was placed in service and the method of depreciation that was claimed. The percentage used to calculate the amount taxable as ordinary income because of additional depreciation varies, depending on whether the real property is nonresidential real property, residential real property, or low-income housing. See the instructions to Form 4797 for more information.

Capital Gain on Collectibles

Collectibles include the following items.[18]

- Works of art
- Rugs or antiques
- Metals or gems
- Stamps or coins
- Alcoholic beverages

Gains on the sale of collectibles are taxed at a maximum rate of 28%.[19] **The special 0% rate is not applicable to the sale of collectibles.** Lower-income taxpayers benefit from a marginal tax rate that is less than the maximum 28% rate. Taxpayers in the highest three brackets benefit from paying the 28% rate on collectibles gains rather than their higher marginal tax rate of either 33%, 35%, or 39.6%.

Example 5. Abby is single and has $14,000 of taxable income in 2014, which consists of $5,000 of employment income and a $9,000 gain she realized on the sale of her coin collection. Her employment income falls into the lowest tax bracket, which has a 10% tax rate and a ceiling of $9,075 for 2014.

Of the $9,000 collectibles gain, the first $4,075 ($9,075 − $5,000) falls into the lowest tax bracket. The remaining $4,925 ($9,000 − $4,075) falls into the next highest bracket, with a 15% rate. Therefore, her tax liability on the collectibles gain is $1,147 (($4,075 × 10%) + ($4,925 × 15%)).

18. IRC §408(m).

19. IRC §1(h)(4)(A).

Example 6. Solomon is single and has $229,000 of taxable income in 2014, which includes a $9,000 gain realized on the sale of his stamp collection. His ordinary income is $220,000 ($229,000 − $9,000). Even though Solomon's marginal tax rate is 33%, his collectibles gain of $9,000 is taxed at a maximum rate of 28%. The amount of tax on his collectibles gain is therefore $2,520 ($9,000 × 28%).

IRC §1202 Stock

A taxpayer who disposes of **qualified small business stock** (QSBS) may be eligible to exclude part or all of the gain from income. In order to obtain the exclusion from income, the taxpayer must hold the qualified stock for **more than five years.** The 5-year holding period applies regardless of the acquisition date of the stock. Any amount of gain that is included in income is taxed at a maximum capital gains rate of 28%. More information about QSBS is provided later in this chapter.

PREPARATION OF FORM 8949

Form 8949 is used to report sales and exchanges of capital assets. Form 8949 allows the taxpayer and the IRS to reconcile amounts that were reported on Form 1099-B, *Proceeds From Broker and Barter Exchange Transactions,* and Form 1099-S, *Proceeds From Real Estate Transactions,* with the amounts the taxpayer reports on their return.

Form 8949 contains two parts: short-term capital gains and losses are reported in part I, and long-term capital gains and losses are reported in part II. Each transaction is reported on a separate line unless the taxpayer qualifies for an exception. (Exceptions are discussed later in this section.) After totaling the amounts from each section, the net result is carried over to the Schedule D.

Example 7. Marty's broker sends him a Form 1099-B that reports the sales of 100 stock transactions during the year. The Form 1099-B summary shows the short-term and long-term proceeds from the transactions as well as the basis and the net gain or loss from each. Unless he meets an exception to this rule, Marty reports each of the 100 transactions on a separate line of Form 8949.

PART I

Short-term gains and losses are reported in part I of Form 8949. There are three boxes at the top of part I (A, B, and C). A separate part I is used for each of these three types of short-term transaction. On each part I, only transactions for the box checked are included, and only one box is checked. As many copies of part I can be completed as necessary to report all of the transactions for each type.

Box A

Box A of part I is checked if the taxpayer is listing short-term transactions reported to the taxpayer on a Form 1099-B with an amount shown for cost or other basis, unless the statement indicates that the amount was not reported to the IRS. If no adjustments are needed to the basis or type of gain or loss reported on Form 1099-B or to the gain or loss for transactions normally reported on Form 8949 with box A checked, these transactions do not have to be included on Form 8949. Instead, the taxpayer can report the transactions directly on Schedule D. See the discussion regarding exception 3 later in this section for more information.

Box B

Box B of part I is checked to indicate that the taxpayer is listing short-term transactions reported to the taxpayer on a Form 1099-B without an amount shown for cost or other basis, or on a Form 1099-B showing that cost or other basis was not reported to the IRS.

Box C

Box C of part I is checked to indicate that the taxpayer is reporting short-term transactions for which they cannot check box A or B because they did not receive a Form 1099-B.

PART II

Long-term transactions are reported in part II of Form 8949. There are three boxes at the top of part II (D, E, and F). A separate part II should be used for each of these three types of long-term transactions. On each part II, only transactions for the box checked should be included, and only one box should be checked. As many copies of part II can be completed as necessary to report all of the transactions for each type.

Box D

Box D of part II is checked if the taxpayer lists long-term transactions reported on their Form 1099-B with an amount shown for cost or other basis, unless the statement indicates that the amount was not reported to the IRS. If no adjustments are needed to the basis or type of gain or loss reported on Form 1099-B or to the gain or loss for transactions normally reported on Form 8949 with box D checked, these transactions do not need to be included on Form 8949. Instead, the taxpayer can report them directly on Schedule D. See the discussion regarding exception 3 later in this section for more information.

Box E

Box E of part II is checked if the taxpayer lists long-term transactions reported on their Form 1099-B without an amount shown for cost or other basis, or on a Form 1099-B showing that cost or other basis was not reported to the IRS.

Box F

Box F of part II is checked if the taxpayer reports long-term transactions for which they cannot check box D or E because they did not receive a Form 1099-B.

> **Note.** Lines 1 and 2 are basically the same on Form 8949 for parts I and II except that part I is short-term and part II is long-term. Therefore, the following information about lines 1 and 2 covers both short-term and long-term transactions.

LINE 1

On line 1 of part I or part II, all of the sales and exchanges of capital assets are entered. This includes stocks, bonds, and real estate that were not reported on line 1a or 8a of Schedule D or on other forms. These transactions are included even if the taxpayer did not receive a Form 1099-B or 1099-S for the transaction. The details of each transaction are entered on a separate row unless one of the following exceptions applies.

Exception 1. Instead of reporting each of a taxpayer's transactions on a separate row of part I or part II, the taxpayer can instead report them on an attached statement. This statement should contain all of the same information as parts I and II and be in a similar format. The taxpayer can use as many attached statements as necessary. The combined totals from all of the attached statements are entered on parts I and II with the appropriate box checked.

If this exception applies, the name of the broker, if applicable, followed by the words "see attached statement" is entered in column (a). Columns (b) and (c) are left blank. Code "M" is entered in column (f). If other codes also apply, they can all be entered in column (f). The applicable totals are entered in columns (d), (e), (g), and (h). If the taxpayer has statements from more than one broker, the totals from each broker are entered on a separate row. For this exception, the words "available upon request" and summary totals **are not** entered in lieu of reporting the details of each transaction on part I or II or on attached statements.

Exception 2. Certain taxpayers (other than individuals) can enter summary totals instead of reporting the details of each transaction on a separate row of part I or II or on attached statements if they meet two conditions.

a. The taxpayer must report more than five transactions for that part (I or II).

b. The taxpayer must file Form 1120S, *U.S. Income Tax Return for an S Corporation;* Form 1065, *U.S. Return of Partnership Income;* or Form 1065-B, *U.S. Return of Income for Electing Large Partnerships;* or they must be a taxpayer exempt from receiving Form 1099-B, such as a corporation or exempt organization.

If this exception applies to the taxpayer, the summary totals from all the brokers are entered on a single row of line 1. Separate rows for each broker are not used. For short-term transactions, box C at the top of part I is checked even if the summary totals include transactions described in the text for box A or box B. For long-term transactions, box F at the top of part II is checked even if the summary totals include transactions described in the text for box D or box E. For this exception, the words "Available upon request" are entered in column (a). The code "M" is entered in column (f). If other codes apply, they can all be entered in column (f). Columns (b) and (c) are left blank and the applicable totals are entered in columns (d), (e), (g), and (h).

Exception 3. Form 8949 is not required for certain transactions. The transactions can sometimes be aggregated and reported directly on Schedule D on line 1a (short-term) or line 8a (long-term). This exception applies only to transactions (other than sales of collectibles) that meet two conditions.

a. The taxpayer received a Form 1099-B that shows that basis was reported to the IRS and does not show a nondeductible wash sale loss in box 5.

b. The taxpayer does not need to make any adjustments to the basis or type of gain or loss (short-term or long-term) reported on Form 1099-B, or to their gain or loss.

If the taxpayer chooses to report these transactions on Schedule D, they do not need to include them on the Form 8949. They also do not need to attach a statement.

If a taxpayer qualifies for exception 3 and also qualifies for exception 1 or 2, they can use both exception 3 plus either exception 1 or 2. The transactions that qualify for exception 3 are reported on Schedule D, line 1a or line 8a. The rest of the transactions for exceptions 1 or 2 are reported as explained earlier.

Column (a) — Description of Property

In column (a) of Form 8949, an accurate description of the property is entered. For stock, the number of shares are listed. The stock ticker symbols or abbreviations can be used to describe the property if they are based on the descriptions shown on Forms 1099-B or 1099-S.

Column (b) — Date Acquired

In column (b) of Form 8949, the date the asset or property was acquired is entered. For stocks and bonds purchased on an exchange or over-the-counter market, the trade date is used. For a short sale, the date the taxpayer acquired the property that was delivered to the broker or lender to close the short sale is entered.

If a block of stock or similar property was sold that was acquired by purchases on various dates, the sale can be reported in one row and the word "various" can be entered in column (b). However, the short-term gain or loss is only reported in part I, and the long-term gain or loss is only reported in part II.

If the taxpayer disposes of property that was acquired by inheritance, the sale or exchange is reported on a part II with the appropriate box checked (D, E, or F). Inherited property is always considered long-term. The word "Inherited" is entered in column (b).

Column (c) — Date Sold or Disposed

In column (c), the date of the disposition or sale of the property is entered. For stocks and bonds traded on an exchange or over-the-counter market, the trade date is used. For a short sale, the date the taxpayer delivered the property to the broker or lender to close the sale is entered.

Column (d) — Proceeds (Sales Price)

The entry in column (d) depends on the following.

- **Taxpayer Did Not Receive Form 1099-B or 1099-S.** If the taxpayer did not receive a Form 1099-B or 1099-S for a transaction, the net proceeds are entered in column (d). The net proceeds are the gross proceeds minus selling expenses (e.g., broker's fees, commissions, and state and local transfer taxes).
- **Taxpayer Received Form 1099-B or 1099-S.** If the taxpayer received a Form 1099-B or 1099-S for a transaction, the proceeds or sales price shown on the form received is entered in column (d). If the taxpayer had any selling expenses or option premiums that are not reflected on the Form 1099-B or 1099-S, the code "E" is entered in column (f), and the adjustment needed is entered in column (g).

  If the taxpayer received proceeds that were more than what is shown on the Form 1099-B or 1099-S, the correct proceeds are entered in column (d).

Column (e) — Cost or Other Basis

The cost or basis of the property is entered in column (e). If the actual cost of the property is not used, an explanation of how the basis was derived should be attached. The taxpayer may not be able to use the actual cost as the basis if they inherited the property, received it as a gift, or received the property in a tax-free exchange, through involuntary conversion, or through a wash sale.

If the basis is not correct on the form received, entries are made in columns (f) and (g), as explained in the next sections.

> **Note.** More information on basis is provided earlier in this chapter. For additional details, see IRS Pub. 550, *Investment Income and Expenses,* and IRS Pub. 551, *Basis of Assets.*

Column (f) — Code

To explain any adjustment to the gain or loss in column (g), the appropriate code or codes are entered in column (f). If more than one code applies, all the applicable codes are entered in alphabetical order. The codes are not separated by a space or comma. The following table explains the various codes that can be entered in column (f).[20]

20. Instructions for Form 8949.

How To Complete Form 8949, Columns (f) and (g)

For most transactions, you do not need to complete columns (f) and (g) and can leave them blank. You may need to complete columns (f) and (g) if you got a Form 1099-B or 1099-S (or substitute statement) that is incorrect, if you are excluding or postponing a capital gain, if you have a disallowed loss, or in certain other situations. Details are in the table below. If you enter more than one code in column (f), see More than one code in the instructions for column (g).

IF . . .	THEN enter this code in column (f) . . .	AND. . .
You received a Form 1099-B (or substitute statement) and the basis shown in box 3 is incorrect	B	• If box B is checked at the top of Part I or if box E is checked at the top of Part II, enter the correct basis in column (e), and enter -0- in column (g). • If box A is checked at the top of Part I or if box D is checked at the top of Part II, enter the basis shown on Form 1099-B (or substitute statement) in column (e), even though that basis is incorrect. Correct the error by entering an adjustment in column (g). To figure the adjustment needed, see the Worksheet for Basis Adjustments in Column (g). Also see Example 4—adjustment for incorrect basis in the instructions for column (h).
You received a Form 1099-B (or substitute statement) and the type of gain or loss (short-term or long-term) shown in box 1c is incorrect	T	Enter -0- in column (g). Report the gain or loss on the correct Part of Form 8949.
You received a Form 1099-B or 1099-S (or substitute statement) as a nominee for the actual owner of the property	N	Report the transaction on Form 8949 as you would if you were the actual owner, but also enter any resulting gain as a negative adjustment (in parentheses) in column (g) or any resulting loss as a positive adjustment in column (g). As a result of this adjustment, the amount in column (h) should be zero. However, if you received capital gain distributions as a nominee, report them instead as described under *Capital Gain Distributions* in the Instructions for Schedule D (Form 1040).
You sold or exchanged your main home at a gain, must report the sale or exchange on Part II of Form 8949 (as explained in *Sale of Your Home* in the Instructions for Schedule D (Form 1040)), and can exclude some or all of the gain	H	Report the sale or exchange on Form 8949 as you would if you were not taking the exclusion. Then enter the amount of excluded (nontaxable) gain as a negative number (in parentheses) in column (g). See the example in the instructions for column (g).
You sold or exchanged qualified small business stock and can exclude part of the gain	Q	Report the sale or exchange on Form 8949 as you would if you were not taking the exclusion and enter the amount of the exclusion as a negative number (in parentheses) in column (g). However, if the transaction is reported as an installment sale, see *Gain from an installment sale of QSB stock* in the Instructions for Schedule D (Form 1040).
You can exclude all or part of your gain under the rules explained in the Schedule D instructions for DC Zone assets or qualified community assets	X	Report the sale or exchange on Form 8949 as you would if you were not taking the exclusion. Then enter the amount of the exclusion as a negative number (in parentheses) in column (g).
You are electing to postpone all or part of your gain under the rules explained in the Schedule D instructions for any rollover of gain (for example, rollover of gain from QSB stock or publicly traded securities)	R	Report the sale or exchange on Form 8949 as you would if you were not making the election. Then enter the amount of postponed gain as a negative number (in parentheses) in column (g).

IF . . .	THEN enter this code in column (f) . . .	AND. . .
You have a nondeductible loss from a wash sale	W	Report the sale or exchange on Form 8949 and enter the amount of the nondeductible loss as a positive number in column (g). See the Schedule D instructions for more information about wash sales. If you received a Form 1099-B (or substitute statement) and the amount of nondeductible wash sale loss shown (box 5 of Form 1099-B) is incorrect, enter the correct amount of the nondeductible loss as a positive number in column (g). If the amount of the nondeductible loss is less than the amount shown on Form 1099-B (or substitute statement), attach a statement explaining the difference. If no part of the loss is a nondeductible loss from a wash sale transaction, enter -0- in column (g).
You have a nondeductible loss other than a loss indicated by code W	L	Report the sale or exchange on Form 8949 and enter the amount of the nondeductible loss as a positive number in column (g). See *Nondeductible Losses* in the Instructions for Schedule D (Form 1040).
You received a Form 1099-B or 1099-S (or substitute statement) for a transaction and there are selling expenses or option premiums that are not reflected on the form or statement by an adjustment to either the proceeds or basis shown	E	Enter in column (d) the proceeds shown on the form or statement you received. Enter in column (e) any cost or other basis shown on Form 1099-B (or substitute statement). In column (g), enter as a negative number (in parentheses) any selling expenses and option premium that you paid (and that are not reflected on the form or statement you received) and enter as a positive number any option premium that you received (and that is not reflected on the form or statement you received). For more information about option premiums, see *Gain or Loss From Options* in the Instructions for Schedule D (Form 1040).
You had a loss from the sale, exchange, or worthlessness of small business (section 1244) stock and the total loss is more than the maximum amount that can be treated as an ordinary loss	S	See *Small Business (Section 1244) Stock* in the Schedule D (Form 1040) instructions.
You disposed of collectibles (see the Schedule D instructions)	C	Enter -0- in column (g). Report the disposition on Form 8949 as you would report any sale or exchange.
You report multiple transactions on a single row as described in Exception 1 or Exception 2 under *Exceptions to reporting each transaction on a separate row*	M	See Exception 1 and Exception 2 under *Exceptions to reporting each transaction on a separate row*. Enter -0- in column (g) unless an adjustment is required because of another code.
You have an adjustment not explained earlier in this column	O	Enter the appropriate adjustment amount in column (g). See the instructions for column (g).
None of the other statements in this column apply	Leave columns (f) and (g) blank.	

Column (h)—Gain or (Loss)

Figure gain or loss on each row. First, subtract the cost or other basis in column (e) from the proceeds (sales price) in column (d). Then take into account any adjustments in column (g). Enter the gain or (loss) in column (h). Enter negative amounts in parentheses.

Example 1—gain. Column (d) is $6,000 and column (e) is $2,000. Enter $4,000 in column (h).

Example 2—loss. Column (d) is $6,000 and column (e) is $8,000. Enter ($2,000) in column (h).

Example 3—adjustment. Column (d) is $6,000, column (e) is $2,000, and column (g) is ($1,000). Enter $3,000 in column (h).

Example 4—adjustment for incorrect basis. You sold stock for $1,000. You had owned the stock for 3 months. Your correct basis for the stock is $100, but you receive a Form 1099-B that shows your basis is $900 and shows your broker reported that basis to the IRS.

Column (g) — Amount of Adjustments

Any necessary adjustments to gain or loss are entered in column (g). If an amount is entered in column (g), a code or codes are entered in column (f) to explain the adjustment. Negative amounts are entered in parentheses.

If more than one code was entered in column (f) on the same row, the net adjustment is entered in column (g).

Example 8. Kaelyn sold her principal residence in 2013 for $320,000. She received a Form 1099-S showing the $320,000 gross proceeds. The home's basis was $100,000, and she had selling expenses of $20,000. Kaelyn qualifies to exclude the entire gain of $200,000 ($320,000 − $100,000 − $20,000) from income under IRC §121.

Kaelyn's tax professional checks box F at the top of part II on the following Form 8949. He enters "EH" in column (f) (see the chart provided earlier in this section) and enters $220,000 ($200,000 excludable gain + $20,000 selling expenses) as a negative number in column (g).

Form 8949 (2013) Attachment Sequence No. **12A** Page **2**

Name(s) shown on return. (Name and SSN or taxpayer identification no. not required if shown on other side.) **Kaelyn**

Social security number or taxpayer identification number **121-21-2121**

Most brokers issue their own substitute statement instead of using Form 1099-B. They also may provide basis information (usually your cost) to you on the statement even if it is not reported to the IRS. Before you check Box D, E, or F below, determine whether you received any statement(s) and, if so, the transactions for which basis was reported to the IRS. Brokers are required to report basis to the IRS for most stock you bought in 2011 or later.

Part II **Long-Term.** Transactions involving capital assets you held more than one year are long term. For short-term transactions, see page 1.

Note. You may aggregate all long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the total directly on Schedule D, line 8a; you are not required to report these transactions on Form 8949 (see instructions).

You *must* check Box D, E, *or* F below. Check only one box. If more than one box applies for your long-term transactions, complete a separate Form 8949, page 2, for each applicable box. If you have more long-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

☐ **(D)** Long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see **Note** above)
☐ **(E)** Long-term transactions reported on Form(s) 1099-B showing basis was **not** reported to the IRS
☒ **(F)** Long-term transactions not reported to you on Form 1099-B

1 (a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis. See the **Note** below and see *Column (e)* in the separate instructions	**Adjustment, if any, to gain or loss.** If you enter an amount in column (g), enter a code in column (f). **See the separate instructions.** (f) Code(s) from instructions	(g) Amount of adjustment	(h) **Gain or (loss).** Subtract column (e) from column (d) and combine the result with column (g)
Personal residence	**05/31/07**	**06/01/13**	**320,000**	**100,000**	**EH**	**(220,000)**	**0**

Note. More information about the sale of a personal residence is provided later in this chapter.

Column (h) — Gain or Loss

The gain or loss is determined on each row of line 1. The gain or loss is the result of subtracting column (e) from (d) and then taking into account any adjustments in column (g). The resulting gain or loss is then entered in column (h). Negative amounts are entered in parentheses.

Example 9. For 2013, Peggy receives Form 1099-B reporting the sales of stock shares in Giggle, Inc. (GIG) and MyBook Corporation (MB). The Form 1099-B shows the basis for each transaction and indicates that the basis was reported to the IRS. Peggy also sold Flitter (FLTR) shares, but the Form 1099-B does not report the basis. Peggy's transactions are shown in the following table.

Stock	Purchase Date	Sales Date	Net Sales	Basis	Gain/Loss	Short-Term (ST)/ Long-Term (LT)
50 shares MB	7/1/2013	12/15/2013	$ 45,000	$ 50,000	($ 5,000)	ST
100 shares FLTR	11/7/2013	12/31/2013	52,000	26,000	26,000	ST
100 shares GIG	7/1/2005	6/30/2013	100,000	50,000	50,000	LT
100 shares MB	6/1/2012	12/31/2013	90,000	100,000	(10,000)	LT

Peggy's Forms 8949 for 2013 follow.

For Example 9

Form **8949**

Department of the Treasury
Internal Revenue Service

Sales and Other Dispositions of Capital Assets

▶ Information about Form 8949 and its separate instructions is at *www.irs.gov/form8949.*

▶ File with your Schedule D to list your transactions for lines 1b, 2, 3, 8b, 9, and 10 of Schedule D.

OMB No. 1545-0074

2013

Attachment Sequence No. **12A**

Name(s) shown on return: **Peggy**

Social security number or taxpayer identification number: **555-33-4444**

Most brokers issue their own substitute statement instead of using Form 1099-B. They also may provide basis information (usually your cost) to you on the statement even if it is not reported to the IRS. Before you check Box A, B, or C below, determine whether you received any statement(s) and, if so, the transactions for which basis was reported to the IRS. Brokers are required to report basis to the IRS for most stock you bought in 2011 or later.

Part I **Short-Term.** Transactions involving capital assets you held one year or less are short term. For long-term transactions, see page 2.

Note. You may aggregate all short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the total directly on Schedule D, line 1a; you are not required to report these transactions on Form 8949 (see instructions).

You *must* check Box A, B, *or* C below. Check only one box. If more than one box applies for your short-term transactions, complete a separate Form 8949, page 1, for each applicable box. If you have more short-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

☒ **(A)** Short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see **Note** above)

☐ **(B)** Short-term transactions reported on Form(s) 1099-B showing basis was **not** reported to the IRS

☐ **(C)** Short-term transactions not reported to you on Form 1099-B

1 (a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis. See the **Note** below and see *Column (e)* in the separate instructions	Adjustment, if any, to gain or loss. If you enter an amount in column (g), enter a code in column (f). **See the separate instructions.** (f) Code(s) from instructions	(g) Amount of adjustment	(h) **Gain or (loss).** Subtract column (e) from column (d) and combine the result with column (g)
50 Shares MB	**07/01/13**	**12/15/13**	**45,000**	**50,000**			**(5,000)**
2 Totals. Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, **line 1b** (if **Box A** above is checked), **line 2** (if **Box B** above is checked), or **line 3** (if **Box C** above is checked) ▶			**45,000**	**50,000**			**(5,000)**

Note. If you checked Box A above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter an adjustment in column (g) to correct the basis. See *Column (g)* in the separate instructions for how to figure the amount of the adjustment.

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 37768Z Form **8949** (2013)

For Example 9

Form **8949**

Department of the Treasury
Internal Revenue Service

Sales and Other Dispositions of Capital Assets

▶ Information about Form 8949 and its separate instructions is at *www.irs.gov/form8949.*

▶ File with your Schedule D to list your transactions for lines 1b, 2, 3, 8b, 9, and 10 of Schedule D.

OMB No. 1545-0074

2013

Attachment Sequence No. **12A**

Name(s) shown on return	Social security number or taxpayer identification number
Peggy	555-33-4444

Most brokers issue their own substitute statement instead of using Form 1099-B. They also may provide basis information (usually your cost) to you on the statement even if it is not reported to the IRS. Before you check Box A, B, or C below, determine whether you received any statement(s) and, if so, the transactions for which basis was reported to the IRS. Brokers are required to report basis to the IRS for most stock you bought in 2011 or later.

Part I **Short-Term.** Transactions involving capital assets you held one year or less are short term. For long-term transactions, see page 2.

Note. You may aggregate all short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the total directly on Schedule D, line 1a; you are not required to report these transactions on Form 8949 (see instructions).

You *must* check Box A, B, *or* C below. Check only one box. If more than one box applies for your short-term transactions, complete a separate Form 8949, page 1, for each applicable box. If you have more short-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

☐ **(A)** Short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see **Note** above)

☒ **(B)** Short-term transactions reported on Form(s) 1099-B showing basis was **not** reported to the IRS

☐ **(C)** Short-term transactions not reported to you on Form 1099-B

1 (a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis. See the **Note** below and see *Column (e)* in the separate instructions	Adjustment, if any, to gain or loss. If you enter an amount in column (g), enter a code in column (f). See the separate instructions. (f) Code(s) from instructions	(g) Amount of adjustment	(h) Gain or (loss). Subtract column (e) from column (d) and combine the result with column (g)
100 Shares FLTR	**11/07/13**	**12/31/13**	**52,000**	**26,000**			**26,000**
2 Totals. Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, **line 1b** (if **Box A** above is checked), **line 2** (if **Box B** above is checked), or **line 3** (if **Box C** above is checked) ▶			**52,000**	**26,000**			**26,000**

Note. If you checked Box A above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter an adjustment in column (g) to correct the basis. See *Column (g)* in the separate instructions for how to figure the amount of the adjustment.

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 37768Z Form **8949** (2013)

For Example 9

Form 8949 (2013) Attachment Sequence No. **12A** Page **2**

Name(s) shown on return. (Name and SSN or taxpayer identification no. not required if shown on other side.) | **Social security number or taxpayer identification number**

Most brokers issue their own substitute statement instead of using Form 1099-B. They also may provide basis information (usually your cost) to you on the statement even if it is not reported to the IRS. Before you check Box D, E, or F below, determine whether you received any statement(s) and, if so, the transactions for which basis was reported to the IRS. Brokers are required to report basis to the IRS for most stock you bought in 2011 or later.

Part II **Long-Term.** Transactions involving capital assets you held more than one year are long term. For short-term transactions, see page 1.

Note. You may aggregate all long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the total directly on Schedule D, line 8a; you are not required to report these transactions on Form 8949 (see instructions).

You *must* check Box D, E, *or* F below. Check only one box. If more than one box applies for your long-term transactions, complete a separate Form 8949, page 2, for each applicable box. If you have more long-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

☒ **(D)** Long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see **Note** above)
☐ **(E)** Long-term transactions reported on Form(s) 1099-B showing basis was **not** reported to the IRS
☐ **(F)** Long-term transactions not reported to you on Form 1099-B

1 (a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis. See the **Note** below and see *Column (e)* in the separate instructions	Adjustment, if any, to gain or loss. If you enter an amount in column (g), enter a code in column (f). See the separate instructions. (f) Code(s) from instructions	(g) Amount of adjustment	(h) Gain or (loss). Subtract column (e) from column (d) and combine the result with column (g)
100 Shares GIG	07/01/05	06/30/13	100,000	50,000			50,000
100 Shares MB	06/01/12	12/31/13	90,000	100,000			(10,000)
2 Totals. Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, **line 8b** (if **Box D** above is checked), **line 9** (if **Box E** above is checked), or **line 10** (if **Box F** above is checked) ▶			190,000	150,000			40,000

Note. If you checked Box D above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter an adjustment in column (g) to correct the basis. See *Column (g)* in the separate instructions for how to figure the amount of the adjustment.

Form **8949** (2013)

LINE 2

The total of the amounts shown on line 1 in columns (d), (e), (g), and (h) is entered on line 2. The total entered in column (h) of line 2 should equal the amount obtained by combining columns (d), (e), and (g) on the corresponding line of Schedule D. For example, the total of the amounts in column (h) of line 2 of all a taxpayer's Forms 8949 with box A checked should equal the amount obtained by combining columns (d), (e), and (g) on line 1b of their Schedule D.

TRANSACTIONS REPORTED ON FORM 8949

Form 8949 is used to report the disposition of many different types of capital assets. This section provides information on the following transactions reported on Form 8949.

- Related-party losses
- Capital assets held for personal use
- Nonbusiness bad debts
- Worthless stocks and securities
- Sale of principal residence
- Wash sales
- Security trades
- Short sales
- Demutualization of life insurance companies
- Qualified small business stock

RELATED-PARTY LOSSES

Losses between certain related parties cannot be deducted. This includes losses from a direct or indirect sale or exchange of property between any of the following.[21]

- Members of a family
- A corporation and an individual owning more than 50% of the corporation's stock (unless the loss is from a distribution in complete liquidation of a corporation)
- A grantor and a fiduciary of a trust
- A fiduciary and a beneficiary of the same trust
- A fiduciary and a fiduciary or beneficiary of another trust created by the same grantor
- An executor of an estate and a beneficiary of that estate, unless the sale or exchange was to satisfy a pecuniary bequest
- An individual and a tax-exempt organization controlled by the individual or the individual's family

[21] Instructions for Schedule D.

If a transaction is a nondeductible loss, it is reported on Form 8949 in part I if it is short-term or part II if it is long-term. If a Form 1099-B was not received for the sale, box C at the top of part I is checked for a short-term loss or box F at the top of part II for a long-term loss. Because the loss is not deductible, the letter "L" is entered in column (f). The amount of the nondeductible loss is shown as a positive number in column (g).

Example 10. In 2008, Shane bought land for $15,000 that he held as an investment. In 2013, he sold the land to his sister Shauna for $10,000. Shane's Form 8949 follows.

Form 8949 (2013) Attachment Sequence No. **12A** Page **2**

Name(s) shown on return. (Name and SSN or taxpayer identification no. not required if shown on other side.) **Shane**

Social security number or taxpayer identification number **989-78-7878**

Most brokers issue their own substitute statement instead of using Form 1099-B. They also may provide basis information (usually your cost) to you on the statement even if it is not reported to the IRS. Before you check Box D, E, or F below, determine whether you received any statement(s) and, if so, the transactions for which basis was reported to the IRS. Brokers are required to report basis to the IRS for most stock you bought in 2011 or later.

Part II **Long-Term.** Transactions involving capital assets you held more than one year are long term. For short-term transactions, see page 1.

Note. You may aggregate all long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the total directly on Schedule D, line 8a; you are not required to report these transactions on Form 8949 (see instructions).

You *must* check Box D, E, *or* F below. Check only one box. If more than one box applies for your long-term transactions, complete a separate Form 8949, page 2, for each applicable box. If you have more long-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

☐ **(D)** Long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see **Note** above)
☐ **(E)** Long-term transactions reported on Form(s) 1099-B showing basis was **not** reported to the IRS
☒ **(F)** Long-term transactions not reported to you on Form 1099-B

1 (a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis. See the **Note** below and see *Column (e)* in the separate instructions	Adjustment, if any, to gain or loss. If you enter an amount in column (g), enter a code in column (f). **See the separate instructions.** (f) Code(s) from instructions	(g) Amount of adjustment	(h) **Gain or (loss).** Subtract column (e) from column (d) and combine the result with column (g)
Land	05/01/08	06/03/13	10,000	15,000	L	5,000	0

Note. For more information about transactions between related parties, see the 2009 *University of Illinois Federal Tax Workbook,* Chapter 8: Related Parties. This chapter is available at **www.taxschool.illinois.edu/taxbookarchive.**

CAPITAL ASSETS HELD FOR PERSONAL USE

The gain from the sale of capital assets held for personal use is capital gain and is reported on Form 8949. A loss from the sale or exchange of personal-use property is **not deductible.** However, if the taxpayer had a loss from the sale or exchange of real estate held for personal use and received a Form 1099-S, the transaction is reported on Form 8949 even though the loss is not deductible. For example, if the real estate sold is a vacation home, it is reported on Form 8949 in part I or II, depending on how long the property was held. Because the loss is not deductible, the letter "L" is entered in column (f).

If depreciable property was converted to personal use, all or part of any gain on the sale or exchange of the property may have to be recaptured as ordinary income. Part III of Form 4797 should be completed to determine the ordinary income recapture. If the gain is more than the recapture amount, "From Form 4797" is entered in column (a) of Form 8949. This entry is made in part I if the transaction is short-term and in part II if it is long-term. The excess of the gain over the recapture amount is entered in column (d).

NONBUSINESS BAD DEBTS

Under IRC §166, a nonbusiness bad debt is **deductible as a short-term capital loss** no matter how long the debt was held. Nonbusiness bad debts must be completely worthless in order to be deductible.

A debt becomes worthless when the surrounding facts and circumstances indicate that there is no reasonable expectation of payment. To show that a debt is worthless, the taxpayer must establish that they have taken reasonable steps to collect the debt. The bad debt deduction can only be taken in the year the debt becomes worthless.[22]

A nonbusiness bad debt is reported as a short-term capital loss on Form 8949. The name of the debtor and the phrase "bad debt statement attached" is entered in part I in column (a). A zero is entered in column (d), and the basis in the bad debt is entered in column (e).[23] The statement attached to the return should include a description of the debt, the amount and due date, the name of the debtor and their relationship to the taxpayer, the collection efforts made, and why the debt is worthless.

Note. For more information on nonbusiness bad debts, see IRS Pub. 550, *Investment Income and Expenses.*

WORTHLESS STOCKS AND SECURITIES

Under IRC §165, stocks, stock rights, and bonds that become entirely worthless during the year are treated as if they were sold on the last day of the tax year. Worthless securities also include securities that the taxpayer abandoned after March 12, 2008. To "abandon" a security, the taxpayer must permanently surrender and relinquish all rights in it and receive no consideration in exchange for it. All the facts and circumstances are considered to determine whether the transaction is property characterized as an abandonment or some other type of transaction, such as a sale or exchange, contribution to capital, dividend, or gift.[24]

Worthless securities are reported on Form 8949, part I, if they are short-term or in part II if they are long-term. A zero is entered in column (d), and the basis in the security is entered in column (e).

SALE OF PRINCIPAL RESIDENCE

Under IRC §121, an individual can exclude up to $250,000 of gain on the sale of a principal residence if the following conditions apply.

- The taxpayer **owned** the principal residence for at least two years during the 5-year period ending on the date of sale **(ownership test).**
- The taxpayer lived in the home as their principal residence for at least two years during the 5-year period ending on the date of sale **(use test).**
- During the 2-year period ending on the date of sale, the taxpayer did not exclude a gain on the sale of another home.

The time periods for the ownership and use tests do not need to be concurrent or continuous. The taxpayer meets these tests if they can show that they owned and lived in the property as their principal residence for a full 24 months or 730 days during the 5-year period ending on the date of sale.

Property acquired in a like-kind exchange, in which gain is not recognized under IRC §1031, has an ownership period requirement of five years rather than two years.

22. *Topic 453 — Bad Debt Deduction.* [www.irs.gov/taxtopics/tc453.html] Accessed on Mar. 21, 2014.

23. Ibid.

24. IRS Pub. 550, *Investment Income and Expenses.*

Married individuals filing jointly (MFJ) can exclude up to $500,000 of gain on the sale of a principal residence, provided the following conditions are satisfied.

- One spouse meets the ownership test and both spouses meet the use test.
- Neither spouse claimed a §121 exclusion within the prior two years.

If the preceding requirements are not satisfied, the maximum exclusion that can be claimed is the total for which each spouse would qualify if they were not married and the amounts were computed separately.

Special provisions relating to divorce allow the nonoccupant spouse who owns a home to meet the use test if the occupant spouse or former spouse is allowed to use the home under a divorce decree or separation instrument and uses the home as a principal residence. For property transferred from a spouse or former spouse incident to a divorce, the ownership of the transferee includes the period of ownership of the transferor spouse.

Example 11. Beginning in 2001, Sonny and Cher owned and lived in the same residence. Cher left in 2011 and moved in with her boyfriend Greg, and she and Sonny divorced shortly thereafter. Sonny maintained the home as his personal residence until it was sold in 2014 under the divorce decree. Cher can use the time that Sonny lived in the home as his personal residence to satisfy the use test for purposes of calculating any excludable gain from her half of the sale proceeds.

The $500,000 exclusion can apply to an unmarried surviving spouse if the house is sold within two years of the death of the spouse, provided:

- Either spouse meets the ownership requirement,
- Both spouses meet the usage requirement, and
- The surviving spouse has not remarried.

Special Rule for Taxpayers Incapable of Self-Care

Taxpayers can qualify for the §121 exclusion if they become physically or mentally incapable of self-care and currently reside in any facility licensed by a state or political subdivision to care for an individual in the taxpayer's condition (e.g., a nursing home). The taxpayer must have owned and used the former residence as a principal residence for an aggregate period of **one year** during the 5-year period ending on the date of the sale or exchange of the residence. The taxpayer is treated as using the property as a principal residence for any period of time they reside in a qualifying facility during the 5-year period preceding the sale or exchange.[25]

Reporting the Sale

A taxpayer is **not required to report the sale** of their principal residence on their tax return **unless one of the following conditions applies.**

- The taxpayer had a gain and does not qualify to exclude all of it.
- The taxpayer had a gain and chooses not to exclude it.
- The taxpayer received Form 1099-S.

25. Treas. Reg. §1.121-1(c)(2).

If the taxpayer has a gain that they cannot or choose not to exclude, or if they received a Form 1099-S, the sale must be reported on Form 8949. The sale is reported on part I of Form 8949 if it is a short-term transaction and on part II if it is a long-term transaction. Any gain that cannot be excluded is taxable. If there was a gain and some or all of the gain can be excluded, the letter "H" is entered in column (f). If the gain is more than the maximum exclusion, the amount subject to capital gain is shown in column (h).[26]

> **Note. Example 8** shows the sale of a principal residence with a completed Form 8949.

A taxpayer can elect to not apply the exclusion of gain under §121 by reporting the sale on Schedule D. This choice can be made or revoked at any time before the expiration of a 3-year period beginning on the due date of the taxpayer's return, not including extensions. A taxpayer may want to consider this alternative if they sell multiple properties that qualify for the §121 exclusion. However, the taxpayer is still subject to the two-out-of-five-years rule.

If the taxpayer has a loss on the sale of their principal residence for which they received a Form 1099-S, the sale must be reported on Form 8949 even though the loss is not deductible. In this situation, "L" is entered in column (f), and the amount of the nondeductible loss is entered as a positive number in column (g).[27]

If the taxpayer used the home for business or as a rental property, they may have to use Form 4797 to report the sale of the business or rental portion. More information about the use of a home for rental or business purposes is provided later in this chapter.

Reduced Exclusion Provision

Taxpayers who fail to qualify for the full §121 exclusion may qualify for a reduced exclusion under Treas. Reg. §1.121-3. Reduced exclusions apply if the taxpayer sold or exchanged the residence for one of the following reasons.

1. Change in place of employment
2. Health
3. Unforeseen circumstances

If a safe harbor is met as described in the regulations, then the sale is deemed to be for one of these three reasons.

The **change-in-place-of-employment exception**[28] is available if an employment change is the primary reason for the sale. However, there is a safe-harbor **distance requirement.** The new place of employment must be at least 50 miles further from the residence sold than the former place of employment. If there is no former place of employment, the distance between the qualified new place of employment and the sold residence must be at least 50 miles.

Example 12. Adeana is unemployed and owns a townhouse. She owned and used the townhouse as her principal residence since 2012. In 2013, Adeana obtained a job that is 54 miles from her townhouse, and she sold the townhouse. Because the distance between her new place of employment and the townhouse is at least 50 miles, the sale is eligible for the reduced §121 exclusion.

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26. IRS Pub. 523, *Selling Your Home.*

27. Ibid.

28. Treas. Reg. §1.121-3(c)(1).

The **health exception** applies if the primary reason for selling is to obtain, provide, or facilitate the diagnosis, cure, mitigation, or treatment of a disease, illness, or injury of a qualified individual.[29] A **qualified individual** for the health safe harbor is the taxpayer, their spouse, the co-owner of the residence, another person whose principal place of abode is in the same household as the taxpayer, or a person bearing any of the following relationships (even if the taxpayer is not living with this person at the time of sale).[30]

- Parent, grandparent, stepmother, or stepfather
- Child, grandchild, stepchild, or adopted child
- Brother, sister, stepbrother, stepsister, half brother, or half sister
- Mother-in-law, father-in-law, brother-in-law, sister-in-law, son-in-law, or daughter-in-law
- Uncle, aunt, nephew, or niece

The **unforeseen-circumstances exception** is available when the primary reason for selling is the occurrence of an event that the taxpayer could not reasonably anticipate before purchasing and occupying the residence. A sale or exchange is deemed to be by reason of unforeseen circumstances if any of the following events occur during the period of the taxpayer's ownership and use of the residence.[31]

- Involuntary conversion
- Natural or man-made disasters
- Death of a qualified individual
- Cessation of employment of a qualified individual, if the individual is eligible for unemployment benefits
- Divorce or legal separation of a qualified individual
- Multiple births resulting from the same pregnancy of a qualified individual
- Other situations published by the IRS or rulings addressed to specific individuals

Qualified individuals for purposes of the unforeseen-circumstances exception include the following.[32]

- The taxpayer
- The taxpayer's spouse
- The co-owner of the home
- A person whose main home is the same as the taxpayer's

Example 13. Because of a chronic condition, Rick's doctor advised him to spend at least one hour per day in salt water. Based on this advice, Rick and his wife Laurie sold their Iowa home in December 2013 and moved to a condo they purchased on the Gulf Coast. Unfortunately, Rick and Laurie are forced to sell their condo in June 2014 because the area in which their condo is located suffers widespread pollution from a massive oil spill. They find a new residence on the east coast of Florida that meets their needs. Rick and Laurie meet the unforeseen-circumstances exception.

29. Treas. Reg. §1.121-3(d)(1).
30. Treas. Reg. §1.121-3(f).
31. Treas. Reg. §1.121-3(e).
32. IRS Pub. 523, *Selling Your Home.*

If the foregoing requirements for a safe harbor do **not** apply, a sale or exchange is deemed to be made for one of the three exceptions if the **primary** reason for the sale or exchange is a change in place of employment, health, or unforeseen circumstances. All relevant facts and circumstances are examined to determine the primary reason for the sale or exchange. Factors that may be relevant include the following.

- The sale and circumstances causing the sale are proximate in time.
- The suitability of the home as a principal residence materially changes.
- The taxpayer's financial ability to maintain the home becomes impaired.
- The taxpayer used the property as their principal residence during the time they owned the property.
- The circumstances giving rise to the sale or exchange were not reasonably foreseeable when the taxpayer began using the property as their principal residence.
- The circumstances causing the sale occurred during the time the taxpayer owned and used the property as their principal residence.

Example 14. Julianne is an emergency room physician. In July 2012, she purchased a condominium five miles from her place of employment and began using it as her principal residence. In February 2013, Julianne obtained a job that is located 51 miles from her condominium. She may be called in to work unscheduled hours, and when called, must be able to arrive at work quickly. Because of the demands of the new job, Julianne sold the condominium and bought a townhouse that is four miles from her new job. Her new job is only 46 miles farther from the residence sold than her previous job, so the sale is not within the 50-mile safe harbor. However, Julianne is still entitled to a reduced §121 exclusion because the **primary** reason for the sale is a change in employment.

Reduced Exclusion Calculation. The reduced exclusion is calculated by multiplying the maximum §121 exclusion (either $250,000 or $500,000) by a fraction. The numerator is the shortest of the following time periods.[33]

- The time period the taxpayer owned the property during the 5-year period ending on the date of sale
- The time period the taxpayer used the property as a principal residence during the 5-year period ending on the date of sale
- The time period between the date of a prior sale or exchange of property for which the taxpayer excluded the gain under §121 and the date of the current sale or exchange

The denominator is 730 days or 24 months, depending on whether the period used in the numerator is expressed in days or months.

Example 15. Braden owned a house that he has used as his principal residence since 1994. On January 15, 2013, Braden married Janelle, and Janelle began using Braden's house as her principal residence. Braden subsequently sold the house on January 15, 2014 because Janelle's place of employment changed. Neither Braden nor Janelle utilized the §121 exclusion in the last two years. Because Janelle does not meet the use test, the maximum exclusion must be calculated for both Braden and Janelle as if they had not been married. Braden is eligible to exclude up to $250,000 because he meets both the ownership test and the use test. Janelle is not eligible for the maximum exclusion. Instead, because of a change in employment, she is eligible for a $125,000 exclusion ((365 days she used the home as a principal residence ÷ 730) × $250,000 maximum exclusion). Therefore, Braden and Janelle are eligible to exclude up to $375,000 ($250,000 + $125,000) of gain from the sale of their home.

33. Treas. Reg. §1.121-3(g)(1). The time period may be expressed in either days or months.

Business or Rental Use of Home

As long as the ownership and use tests are met, a taxpayer may be able to exclude gain from the sale of a home that has been used for business or rental activities. The ability to exclude gain on the sale of a residence used for business or rental purposes depends on whether the portion of the property used for nonresidential purposes is within the same dwelling unit or separate from it. If the nonresidential portion is not within the same dwelling unit as the residential portion, the taxpayer must prorate the sale and the gain or loss as separate sales of business or rental property and a residence.[34] The business portion of the sale is reported on Form 4797. As mentioned earlier, the residential portion of the sale is reported on Form 8949.

If the business or rental part of the home is within the same dwelling unit, the taxpayer does not need to allocate the basis of the home or the amount realized between the business and personal use of the home. The sale of the home is reported on Form 8949. Even though the taxpayer was entitled to claim depreciation deductions for the business portion of the home, Form 4797 does not need to be filed to report the sale of the home. However, any gain due to depreciation taken after May 6, 1997, cannot be excluded and is reported as unrecaptured IRC §1250 gain on Schedule D.

Note. For examples showing how to allocate and report the sale of property used partly for business or rental purposes and partly as a residence, see IRS Pub. 523, *Selling Your Home.*

Nonqualified Use

For sales and exchanges after December 31, 2008, the Housing Assistance Tax Act of 2008 reduced the exclusion of eligible gain under §121 to the extent that gain is allocated to nonqualified usage. Starting in 2009, a portion of the gain on a principal residence may be taxable if the house was used other than as a principal residence. This prevents taxpayers from selling a second home, vacation home, or rental home and excluding all the gain even if they meet the §121 two-out-of-five-years ownership and use tests.

Nonqualified usage rules apply to any period of time after December 31, 2008, that the property is not used as the principal residence of the taxpayer, spouse, or former spouse. The period of nonqualified use does not include any portion of the 5-year period ending on the date of the sale or exchange **after the last date the taxpayer used the home as a principal residence.** Consequently, the home may be eligible for the full §121 exclusion, provided the two-out-of-five-years test is met.

The gain allocated to nonqualified use is determined by the following calculation.

$$\textbf{Gain allocated to nonqualified use} = \textbf{Total gain} \times \frac{\textbf{Aggregate periods of nonqualified use}}{\textbf{Total period of time taxpayer owned property}}$$

Recapture of depreciation is applied before the gain allocated to periods of nonqualified use. The gain allocated to nonqualified use is based on the total gain less any gain recognized due to depreciation after May 6, 1997.

34. Treas. Reg. §1.121-1(e)(1).

Example 16. Ramon, who is single, purchased a house on May 23, 2007, for $200,000. Ramon moved in on that date and lived in the house until May 31, 2009, when he moved out of the house and put it up for rent. The house was rented from June 1, 2009, to March 31, 2011. Ramon claimed depreciation deductions for 2009 through 2011 totaling $10,000. Ramon moved back into the house on April 1, 2011, and lived there until he sold the house on January 31, 2013, for a gain of $200,000.

Ramon owned and lived in the house for more than two years during the 5-year period ending on the date of sale, as shown in the following table.

5-Year Period	Used as Home	Used as Rental
Jan. 31, 2008 to May 31, 2009	16 months	
Jun. 1, 2009 to Mar. 31, 2011		22 months
Apr. 1, 2011 to Jan. 31, 2013	22 months	
Total	38 months	22 months

During the period Ramon owned the house (2,080 days), his period of nonqualified use was 669 days. He can exclude $128,889 of the gain, as shown in the following table.

Total gain	$200,000
Unrecaptured §1250 gain	(10,000)
Remaining gain to be allocated	$190,000
Taxable gain due to nonqualified use treated as long-term capital gain	
$\left(\frac{669 \text{ days}}{2{,}080 \text{ days}} \times \$190{,}000\right)$	(61,111)
Remaining gain excluded under §121	$128,889

Example 17. Linda owned and used a house as her principal residence from 2007 through 2010. She moved to another state on January 1, 2011. She rented the house from that date until April 30, 2013, when she sold it. During the 5-year period ending on the date of sale (May 1, 2008, through April 30, 2013), Linda owned and lived in the house for more than two years. Because the house was rental property at the time of the sale, she must report the sale on Form 4797. **The period of nonqualified use does not include any part of the 5-year period after the last date Linda lived in the house;** therefore, she has no period of nonqualified use. Linda met the ownership and use tests, so she can exclude gain up to $250,000. However, she cannot exclude the part of the gain equal to the depreciation she claimed while the house was a rental property.

WASH SALES

A wash sale occurs when a taxpayer sells or trades stock or securities at a loss and, within 30 days before or after the sale, they:

1. Buy substantially identical stock or securities,
2. Acquire substantially identical stock or securities in a fully taxable trade,
3. Acquire a contract or option to buy substantially identical stock or securities, or
4. Acquire substantially identical stock for their traditional IRA or Roth IRA.[35]

A taxpayer also has a wash sale if they sell stock at a loss and their spouse or a corporation they control buys substantially identical stock.

35. IRS Pub. 550, *Investment Income and Expenses.*

A taxpayer cannot deduct losses from sales or trades of stock or securities in a wash sale unless the loss was incurred in the ordinary course of the taxpayer's business as a dealer in stock or securities. If the taxpayer's loss was disallowed because of the wash sale rules, they should add the disallowed loss to the cost of the new stock or securities (except for item 4 in the preceding list). This results in an increase of the basis in the new stock or securities. This also postpones the loss deduction until the taxpayer disposes of the new stock or securities. The holding period for the new stock or securities includes the holding period of the stock or securities that were sold.

A wash sale is reported on Form 8949 in either part I for short-term transactions or part II for long-term transactions. The letter "W" is entered in column (f). In column (g), the amount of the loss not allowed is entered as a positive number.

Note. For more information about wash sales, see IRS Pub. 550, *Investment Income and Expenses.*

SECURITY TRADES

If the taxpayer is a trader in securities in the business of buying and selling securities for their own account, special rules apply to them. The taxpayer must meet all the following to be engaged in business as a trader in securities.[36]

- They must seek to profit from daily market movements in the prices of securities and not from dividends, interest, or capital appreciation.
- Their activity must be substantial.
- They must carry on the activity with continuity and regularity.

To determine whether the activity is a securities trading business, the following facts and circumstances are considered.[37]

- Typical holding periods for securities bought and sold
- The frequency and dollar amount of the taxpayer's trades during the year
- The extent to which the taxpayer pursues the activity to produce income for a livelihood
- The amount of time devoted to the activity

The taxpayer is considered an investor and not a trader if their trading activity does not meet the preceding definition of a business. However, they could be considered a trader for some securities and an investor for others. Detailed records must be kept to determine whether a taxpayer is both an investor and a trader.

Transactions from trading activities that result in capital gains and losses generally must be reported on Form 8949 unless one of the three exceptions described earlier applies. However, if a trader made a mark-to-market election, they report trading activity as ordinary gains and losses on Form 4797 in part II instead of on Form 8949. If they made the election, securities held at the end of the year in their trading business are marked-to-market by treating the securities as if they were sold and reacquired for fair market value on the last business day of the year.

Note. For more information about buyers and sellers of securities and the mark-to-market election, see the 2014 *University of Illinois Federal Tax Workbook,* Volume C, Chapter 4: Special Taxpayers.

36. Ibid.

37. Ibid.

SHORT SALES[38]

A short sale is a contract to sell property a taxpayer borrowed for delivery to a buyer. Later on, the taxpayer either buys substantially identical property and delivers it to the lender or makes delivery from property the taxpayer held but did not want to transfer at the time of the sale. Gain or loss is realized when the taxpayer delivers property and closes the sale. If the property is a capital asset, it is a capital gain or loss.

A short sale is reported on Form 8949 in the year the sale closes. If it is short-term, it is entered in part I; if it is long-term, it is entered in part II. Whether the transaction is short-term or long-term is determined by the length of time the taxpayer actually held the property that is eventually delivered to the lender to close the short sale.

Example 18. Because Madelyn thought that the value of PCI stock would drop, she borrowed 10 shares from her broker in June 2012 and sold them for a total of $100. This is a short sale. Madelyn later bought 10 shares of PCI stock for $80 in July 2013 and delivered them to her broker the next week to close the short sale. Her gain is $20 ($100 − $80). This is a short-term capital gain because she only held the delivered property for a week.

DEMUTUALIZATION OF LIFE INSURANCE COMPANIES

Demutualization of a life insurance company occurs when a mutual life insurance company changes to a stock company. If the taxpayer was a policyholder or annuitant of the mutual company, they may have received either stock in the stock company or cash in exchange for their equity interest in the mutual company.

No gain or loss is recognized on a receipt of stock for the taxpayer's equity interest in the mutual company if the demutualization is a tax-free reorganization. However, if the taxpayer received cash for their equity interest, they may have capital gain income to recognize. The holding period for the new stock includes the time the taxpayer held an equity interest in the mutual company. If the taxpayer held the equity interest for one year or less, it is short-term and is reported on Form 8949 in part I. If it was held more than one year, it is long-term and is reported in part II of Form 8949.

If the demutualization transaction is not a tax-free reorganization, the taxpayer must recognize a capital gain or loss. This is reported on Form 8949 in part I for short-term transactions and part II for long-term transactions. The holding period for the new stock starts on the day after it was received.

Note. For more information about demutualization, see the 2014 *University of Illinois Federal Tax Workbook,* Volume B, Chapter 2: Individual Taxpayer Issues.

GAINS ON QUALIFIED SMALL BUSINESS STOCK

Under IRC §1202, a taxpayer generally can exclude from income up to 50% of the gain on the sale or exchange of qualified small business stock (QSBS) held for more than five years. However, this 50% exclusion was increased for certain stock acquisitions as follows.

- A 75% gain exclusion for QSBS acquired after February 17, 2009, and on or before September 27, 2010[39]
- A 100% gain exclusion for QSBS acquired after September 27, 2010, and before January 1, 2014[40]

38. Instructions for Schedule D.

39. American Recovery and Reinvestment Act of 2009, PL 111-5.

40. Added by the Small Business Jobs Act of 2010, PL 111-240 and amended by the Tax Relief, Unemployment Insurance Reauthorization and Jobs Creation Act of 2010, PL 111-312.

QSBS is stock that meets all of the following tests.[41]

1. It must be stock in a C corporation.

2. It must have been originally issued after August 10, 1993.

3. The corporation must have total gross assets of $50 million or less at all times after August 9, 1993, and before it issued the stock. Its total gross assets immediately after it issued the stock must also be $50 million or less.

4. The taxpayer must have acquired the stock at its original issue, directly or through an underwriter, in exchange for money or other property (not including stock), or as pay for services provided to the corporation (other than services performed as an underwriter of the stock).

5. The corporation must have met the **active business test** (defined later in this section) and must have been a C corporation during substantially all the time the taxpayer held the stock.

6. Within the period beginning two years before and ending two years after the stock was issued, the corporation cannot have bought more than a de minimis amount of its stock from the taxpayer or a related party.

7. Within the period beginning one year before and ending one year after the stock was issued, the corporation cannot have bought more than a de minimis amount of its stock from anyone, unless the total value of the stock it bought is 5% or less of the total value of all its stock.

Active Business Test

A corporation meets the active business test for any period of time if, during that period, both of the following are true.[42]

1. It was any U.S. corporation other than:

    a. A domestic international sales corporation (DISC) or former DISC,

    b. A corporation that made an election under IRC §936,

    c. A regulated investment company,

    d. A real estate investment trust,

    e. A real estate mortgage investment conduit,

    f. Certain financial asset securitization investment trusts, or

    g. A cooperative.

2. It used at least 80% (by value) of its assets in the active conduct of at least one qualified trade or business. A **qualified trade or business** is any business, except:[43]

    a. Most types of professional services firms (law, accounting, engineering, architecture, and others in which the reputation or skill of an employee or employees is a principal asset);

    b. Banking, insurance, financing, leasing, investing, or similar businesses;

    c. Any farming business (including a tree farm);

    d. Businesses that qualify for either the IRC §§613 or 613A depletion deduction; and

    e. Hotels, motels, restaurants, and similar businesses.

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41. IRS Pub. 550, *Investment Income and Expenses.*

42. Ibid.

43. IRC §1202(e)(3).

Reporting the QSBS Transaction

Form 8949, part II, is used to report the sale or exchange of the QSBS. The letter "Q" should be entered in column (f) and the amount of the excluded gain should be entered as a negative number in parentheses in column (g).

PREPARATION OF SCHEDULE D

PARTS I AND II

Parts I and II of Schedule D are very similar. However, part I is used to report short-term transactions and part II is used to report long-term transactions. The first page of the Schedule D takes all the capital gain and loss transactions from various forms and combines them. This results in a net short-term capital gain or loss and/or a net long-term capital gain or loss. It is important that the short-term and long-term transactions are properly reported so that the correct rate of tax can be applied to each category. It is also important to separate the short-term capital gains and losses from the long-term ones to determine whether any capital loss can be taken for the current year and whether there is any loss that can be carried forward.

Lines 1a and 8a — Transactions Not Reported on Form 8949

For transactions that were not reported on Form 8949, the taxpayer reports the short-term totals on line 1a and the long-term totals on line 8a. The amounts entered on these lines represent the aggregate totals from any transactions (except sales of collectibles) for which:

- The taxpayer received Forms 1099-B that show basis was reported to the IRS;
- The taxpayer does not have any nondeductible wash sale losses in box 5; and
- It is not necessary to make any adjustments to the basis or to the type of gain or loss (short-term or long-term) reported on Form 1099-B, or to the gain or loss.

If the transactions were reported on lines 1a or 8a of Schedule D, they **are not** also reported on Form 8949. No statement is necessary to explain the entries on these lines.

The gain or loss is calculated on each line. The cost or other basis in column (e) is subtracted from the proceeds in column (d). The gain or loss is entered in column (h). Negative amounts are written in parentheses.

> **Example 19.** Colin received a Form 1099-B reporting the sale of stock he held for three years. As box 6b indicates, the basis of the stock was reported to the IRS. Colin does not need to make any adjustments to the amounts reported on the Form 1099-B or enter any codes. This was his only 2013 transaction to report on Schedule D. Instead of reporting this transaction on Form 8949, he only has to enter it on Schedule D.
>
> Colin's Form 1099-B and Schedule D follow.

For Example 19

☐ CORRECTED (if checked)			
PAYER'S name, street address, city, state, ZIP code, and telephone no. **TMI Corporation** **999 Fellows St.** **Chicago, IL 60007**	**1a** Date of sale or exchange **06/15/2013** **1b** Date of acquisition **06/15/2010** **1c** Type of gain or loss Short-term ☐ Long-term ☒	OMB No. 1545-0715 2013 Form **1099-B**	**Proceeds From Broker and Barter Exchange Transactions**
		1d Stock or other symbol	**1e** Quantity sold **600 sh.**
PAYER'S federal identification number **36-1234567** RECIPIENT'S identification number **555-66-9999**	**2a** Stocks, bonds, etc. $ **6000.00**	Reported to IRS ☐ Sales price ☒ Sales price less commissions and option premiums	**2b** If box checked, loss based on amount in 2a is not allowed ☐
RECIPIENT'S name **Colin Peter**	**3** Cost or other basis $ **2000.00**	**4** Federal income tax withheld $	**Copy B** **For Recipient**
Street address (including apt. no.) **123 B St.**	**5** Wash sale loss disallowed $ **7** Bartering $	**6** Checked if: a ☐ Noncovered security b ☒ Basis reported to IRS	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.
City, state, and ZIP code **Momence, IL 60954**	**8** Description		
Account number (see instructions) 2nd TIN not. ☐	**9** Profit or (loss) realized in 2013 on closed contracts $	**10** Unrealized profit or (loss) on open contracts—12/31/2012 $	**13** State **14** State identification no.
CUSIP number	**11** Unrealized profit or (loss) on open contracts—12/31/2013 $	**12** Aggregate profit or (loss) on contracts $	**15** State tax withheld $

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

For Example 19

SCHEDULE D (Form 1040)

Department of the Treasury Internal Revenue Service (99)

Capital Gains and Losses

▶ Attach to Form 1040 or Form 1040NR.
▶ Information about Schedule D and its separate instructions is at *www.irs.gov/scheduled*.
▶ Use Form 8949 to list your transactions for lines 1b, 2, 3, 8b, 9, and 10.

OMB No. 1545-0074

2013

Attachment Sequence No. **12**

Name(s) shown on return: **Colin Peter**

Your social security number: **555-66-9999**

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

See instructions for how to figure the amounts to enter on the lines below. This form may be easier to complete if you round off cents to whole dollars.	(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part I, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)
1a Totals for all short-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 1b .				
1b Totals for all transactions reported on Form(s) 8949 with **Box A** checked				
2 Totals for all transactions reported on Form(s) 8949 with **Box B** checked				
3 Totals for all transactions reported on Form(s) 8949 with **Box C** checked				

	Line	Amount
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 **Capital Loss Carryover Worksheet** in the instructions	6	( )
7 Net short-term capital gain or (loss). Combine lines 1a through 6 in column (h). If you have any long-term capital gains or losses, go to Part II below. Otherwise, go to Part III on the back	7	

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

See instructions for how to figure the amounts to enter on the lines below. This form may be easier to complete if you round off cents to whole dollars.	(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part II, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)
8a Totals for all long-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 8b .	6,000	2,000		4,000
8b Totals for all transactions reported on Form(s) 8949 with **Box D** checked				
9 Totals for all transactions reported on Form(s) 8949 with **Box E** checked				
10 Totals for all transactions reported on Form(s) 8949 with **Box F** checked.				

	Line	Amount
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	
13 Capital gain distributions. See the instructions	13	
14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your **Capital Loss Carryover Worksheet** in the instructions	14	( )
15 Net long-term capital gain or (loss). Combine lines 8a through 14 in column (h). Then go to Part III on the back	15	4,000

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 11338H **Schedule D (Form 1040) 2013**

Lines 1b, 2, 3, 8b, 9, and 10 — Transactions Reported on Forms 8949

These lines report the totals from each Form 8949. The gain or loss is calculated on each line. To do this, the cost or other basis in column (e) is subtracted from the proceeds in column (d). The result is then combined with any adjustments in column (g). The gain or loss is entered in column (h), with negative amounts shown in parentheses.

Line 4

On line 4, the following amounts are reported.

- Short-term gain from Form 6252, *Installment Sale Income*
- Short-term gain or loss from Form 4684, *Casualties and Thefts*
- Short-term gain or loss from Form 6781, *Gains and Losses From Section 1256 Contracts and Straddles*
- Short-term gain or loss from Form 8824, *Like-Kind Exchanges*

Lines 5 and 12

Line 5 is used for any net short-term gain or loss from partnerships, S corporations, estates, and trusts reported on Schedules K-1. Line 12 is used for net long-term gain or loss from partnerships, S corporations, estates, and trusts reported on Schedules K-1.

On the Schedule K-1 for a partnership (Form 1065), short-term capital gains or losses are reported to the pass-through recipient in box 8. Long-term capital gains or losses are shown in box 9a of Schedule K-1.

On the Schedule K-1 for an S corporation (Form 1120S), short-term capital gains and losses are reported to a pass-through recipient in box 7, and long-term capital gains and losses are reported in box 8a.

Finally, on the Schedule K-1 for an estate or trust (Form 1041), short-term capital gains are reported in box 3, and long-term capital gains and losses are reported in box 4a.

Lines 6 and 14

On line 6, short-term capital loss carryovers are reported; on line 14, long-term capital loss carryovers are reported. The Capital Loss Carryover Worksheet from the Schedule D instructions can be used to determine the amounts to report on lines 6 and 14.

Line 11

On line 11, the following amounts are reported.

- Gain from part I of Form 4797, *Sales of Business Property*
- Long-term gain from Form 2439, *Notice to Shareholder of Undistributed Long-Term Capital Gains*
- Long-term gain from Form 6252, *Installment Sale Income*
- Long-term gain or loss from Form 4684, *Casualties and Thefts*
- Long-term gain or loss from Form 6781, *Gains and Losses From Section 1256 Contracts and Straddles*
- Long-term gain or loss from Form 8824, *Like-Kind Exchanges*

Line 13

Capital gain distributions are reported on line 13. The amount entered on line 13 is reported to the taxpayer in box 2a of Form 1099-DIV, *Dividends and Distributions.* Capital gain distributions are always treated as long-term.

PART III

Part III of Schedule D summarizes the gains and losses shown on page 1. Part III also indicates the appropriate worksheets that can be used to compute certain amounts.

The remainder of this section provides a description for the line items in part III that are not self-explanatory.

Line 18

If the taxpayer checked the "yes" box on line 17 (meaning that lines 15 and 16 are both gains), the taxpayer may need to complete the 28% Rate Gain Worksheet. This worksheet is used for the sale of collectibles or the IRC §1202 gain on qualified small business stock.

Example 20. In 2013, Jean Smith sold the following collectible items.

Description	Date Acquired	Date Sold	Proceeds	Basis	Gain or (Loss)
Vase	July 1, 2000	July 1, 2013	$10,000	$ 2,000	$8,000
Wine collection	May 1, 2008	November 1, 2013	15,000	10,000	5,000
Painting	June 1, 2003	December 1, 2013	12,000	15,000	(3,000)

Jean had no other dispositions of capital assets for the year. Her Form 8949, Schedule D, and 28% Rate Gain Worksheet follow.

For Example 20

Form 8949 (2013) Attachment Sequence No. **12A** Page **2**

Name(s) shown on return. (Name and SSN or taxpayer identification no. not required if shown on other side.) **Jean Smith**

Social security number or taxpayer identification number **344-44-4444**

Most brokers issue their own substitute statement instead of using Form 1099-B. They also may provide basis information (usually your cost) to you on the statement even if it is not reported to the IRS. Before you check Box D, E, or F below, determine whether you received any statement(s) and, if so, the transactions for which basis was reported to the IRS. Brokers are required to report basis to the IRS for most stock you bought in 2011 or later.

Part II **Long-Term.** Transactions involving capital assets you held more than one year are long term. For short-term transactions, see page 1.

Note. You may aggregate all long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the total directly on Schedule D, line 8a; you are not required to report these transactions on Form 8949 (see instructions).

You *must* check Box D, E, *or* F below. Check only one box. If more than one box applies for your long-term transactions, complete a separate Form 8949, page 2, for each applicable box. If you have more long-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

- ☐ **(D)** Long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see **Note** above)
- ☐ **(E)** Long-term transactions reported on Form(s) 1099-B showing basis was **not** reported to the IRS
- ☒ **(F)** Long-term transactions not reported to you on Form 1099-B

1 (a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis. See the **Note** below and see *Column (e)* in the separate instructions	**Adjustment, if any, to gain or loss.** If you enter an amount in column (g), enter a code in column (f). **See the separate instructions.** (f) Code(s) from instructions	(g) Amount of adjustment	(h) **Gain or (loss).** Subtract column (e) from column (d) and combine the result with column (g)
Vase	**7/1/2000**	**7/1/2013**	**10,000**	**2,000**	**C**	**0**	**8,000**
Wine collection	**5/1/2008**	**11/1/2013**	**15,000**	**10,000**	**C**	**0**	**5,000**
Painting	**6/1/2003**	**12/1/2013**	**12,000**	**15,000**	**C**	**0**	**(3,000)**
2 Totals. Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, **line 8b** (if **Box D** above is checked), **line 9** (if **Box E** above is checked), or **line 10** (if **Box F** above is checked) ▶			**37,000**	**27,000**		**0**	**10,000**

Note. If you checked Box D above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter an adjustment in column (g) to correct the basis. See *Column (g)* in the separate instructions for how to figure the amount of the adjustment.

Form **8949** (2013)

For Example 20

SCHEDULE D (Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Capital Gains and Losses

▶ Attach to Form 1040 or Form 1040NR.
▶ Information about Schedule D and its separate instructions is at *www.irs.gov/scheduled*.
▶ Use Form 8949 to list your transactions for lines 1b, 2, 3, 8b, 9, and 10.

OMB No. 1545-0074
2013
Attachment Sequence No. 12

Name(s) shown on return: Jean Smith
Your social security number: 344-44-4444

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

See instructions for how to figure the amounts to enter on the lines below. This form may be easier to complete if you round off cents to whole dollars.	(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part I, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)
1a Totals for all short-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 1b				
1b Totals for all transactions reported on Form(s) 8949 with **Box A** checked				
2 Totals for all transactions reported on Form(s) 8949 with **Box B** checked				
3 Totals for all transactions reported on Form(s) 8949 with **Box C** checked				

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 **Capital Loss Carryover Worksheet** in the instructions	6	( )
7 Net short-term capital gain or (loss). Combine lines 1a through 6 in column (h). If you have any long-term capital gains or losses, go to Part II below. Otherwise, go to Part III on the back	7	

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

See instructions for how to figure the amounts to enter on the lines below. This form may be easier to complete if you round off cents to whole dollars.	(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part II, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)
8a Totals for all long-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 8b				
8b Totals for all transactions reported on Form(s) 8949 with **Box D** checked				
9 Totals for all transactions reported on Form(s) 8949 with **Box E** checked				
10 Totals for all transactions reported on Form(s) 8949 with **Box F** checked	37,000	27,000	0	10,000

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	
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 the instructions	13	
14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your **Capital Loss Carryover Worksheet** in the instructions	14	( )
15 Net long-term capital gain or (loss). Combine lines 8a through 14 in column (h). Then go to Part III on the back	15	10,000

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 11338H **Schedule D (Form 1040) 2013**

For Example 20

Schedule D (Form 1040) 2013 Page 2

Part III **Summary**

16	Combine lines 7 and 15 and enter the result	16	10,000
	• If line 16 is a **gain,** enter the amount from line 16 on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 17 below. • If line 16 is a **loss,** skip lines 17 through 20 below. Then go to line 21. Also be sure to complete line 22. • If line 16 is **zero,** skip lines 17 through 21 below and enter -0- on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 22.		
17	Are lines 15 and 16 **both** gains? ☒ **Yes.** Go to line 18. ☐ **No.** Skip lines 18 through 21, and go to line 22.		
18	Enter the amount, if any, from line 7 of the **28% Rate Gain Worksheet** in the instructions ▶	18	10,000
19	Enter the amount, if any, from line 18 of the **Unrecaptured Section 1250 Gain Worksheet** in the instructions ▶	19	
20	Are lines 18 and 19 **both** zero or blank? ☐ **Yes.** Complete the **Qualified Dividends and Capital Gain Tax Worksheet** in the instructions for Form 1040, line 44 (or in the instructions for Form 1040NR, line 42). **Do not** complete lines 21 and 22 below. ☒ **No.** Complete the **Schedule D Tax Worksheet** in the instructions. **Do not** complete lines 21 and 22 below.		
21	If line 16 is a loss, enter here and on Form 1040, line 13, or Form 1040NR, line 14, the **smaller** of: • The loss on line 16 or • ($3,000), or if married filing separately, ($1,500) **Note.** When figuring which amount is smaller, treat both amounts as positive numbers.	21	( )
22	Do you have qualified dividends on Form 1040, line 9b, or Form 1040NR, line 10b? ☐ **Yes.** Complete the **Qualified Dividends and Capital Gain Tax Worksheet** in the instructions for Form 1040, line 44 (or in the instructions for Form 1040NR, line 42). ☐ **No.** Complete the rest of Form 1040 or Form 1040NR.		

Schedule D (Form 1040) 2013

28% Rate Gain Worksheet—Line 18

Keep for Your Records

1.	Enter the total of all collectibles gain or (loss) from items you reported on Form 8949, Part II	1.	10,000
2.	Enter as a positive number the amount of any section 1202 exclusion you reported in column (g) of Form 8949, Part II, with code "Q" in column (f), for which you excluded 50% of the gain, plus 2/3 of any section 1202 exclusion you reported in column (g) of Form 8949, Part II, with code "Q" in column (f), for which you excluded 60% of the gain	2.	0
3.	Enter the total of all collectibles gain or (loss) from Form 4684, line 4 (but only if Form 4684, line 15, is more than zero); Form 6252; Form 6781, Part II; and Form 8824	3.	0
4.	Enter the total of any collectibles gain reported to you on: • Form 1099-DIV, box 2d; • Form 2439, box 1d; and • Schedule K-1 from a partnership, S corporation, estate, or trust.	4.	0
5.	Enter your long-term capital loss carryovers from Schedule D, line 14, and Schedule K-1 (Form 1041), box 11, code C	5.	( )
6.	If Schedule D, line 7, is a (loss), enter that (loss) here. Otherwise, enter -0-	6.	( )
7.	Combine lines 1 through 6. If zero or less, enter -0-. If more than zero, also enter this amount on Schedule D, line 18	7.	10,000

Line 19

If the taxpayer checked the "yes" box on line 17 and any of the following circumstances apply, the Unrecaptured Section 1250 Gain Worksheet in the Schedule D instructions is completed.

- The taxpayer sold or disposed of IRC §1250 property (depreciable real property) held more than one year.
- The taxpayer received installment payments for §1250 property that was held more than one year, and the taxpayer also reports gain on the installment method.
- The taxpayer received a Schedule K-1 from an estate or trust, partnership, or S corporation that shows unrecaptured §1250 gain.
- The taxpayer received a Form 1099-DIV or a Form 2439 from a real estate investment trust, a regulated investment company, or a mutual fund that reports unrecaptured §1250 gain.
- The taxpayer reported a long-term capital gain from the sale or exchange of an interest in a partnership that owned §1250 property.

The amount from line 18 of the Unrecaptured Section 1250 Gain Worksheet is entered on line 19 of Schedule D.

Example 21. On October 1, 2013, Gerard sold a condominium that he used as rental property for a $25,000 gain, of which $15,000 is unrecaptured §1250 gain.

Gerard had no other dispositions of capital assets for the year. His Unrecaptured Section 1250 Gain Worksheet follows.

Unrecaptured Section 1250 Gain Worksheet—Line 19 *Keep for Your Records*

If you are not reporting a gain on Form 4797, line 7, skip lines 1 through 9 and go to line 10.

1. If you have a section 1250 property in Part III of Form 4797 for which you made an entry in Part I of Form 4797 (but not on Form 6252), enter the **smaller** of line 22 or line 24 of Form 4797 for that property. If you did not have any such property, go to line 4. If you had more than one such property, see instructions			**1.**	15,000
2. Enter the amount from Form 4797, line 26g, for the property for which you made an entry on line 1			**2.**	0
3. Subtract line 2 from line 1			**3.**	15,000
4. Enter the total unrecaptured section 1250 gain included on line 26 or line 37 of Form(s) 6252 from installment sales of trade or business property held more than 1 year (see instructions)			**4.**	0
5. Enter the total of any amounts reported to you on a Schedule K-1 from a partnership or an S corporation as "unrecaptured section 1250 gain"			**5.**	0
6. Add lines 3 through 5			**6.**	15,000
7. Enter the **smaller** of line 6 or the gain from Form 4797, line 7	**7.**	15,000		
8. Enter the amount, if any, from Form 4797, line 8	**8.**	0		
9. Subtract line 8 from line 7. If zero or less, enter -0-			**9.**	15,000
10. Enter the amount of any gain from the sale or exchange of an interest in a partnership attributable to unrecaptured section 1250 gain (see instructions)			**10.**	0
11. Enter the total of any amounts reported to you as "unrecaptured section 1250 gain" on a Schedule K-1, Form 1099-DIV, or Form 2439 from an estate, trust, real estate investment trust, or mutual fund (or other regulated investment company) or in connection with a Form 1099-R			**11.**	0
12. Enter the total of any unrecaptured section 1250 gain from sales (including installment sales) or other dispositions of section 1250 property held more than 1 year for which you did not make an entry in Part I of Form 4797 for the year of sale (see instructions)			**12.**	0
13. Add lines 9 through 12			**13.**	15,000
14. If you had any section 1202 gain or collectibles gain or (loss), enter the total of lines 1 through 4 of the **28% Rate Gain Worksheet**. Otherwise, enter -0-	**14.**	0		
15. Enter the (loss), if any, from Schedule D, line 7. If Schedule D, line 7, is zero or a gain, enter -0-	**15.**	( )		
16. Enter your long-term capital loss carryovers from Schedule D, line 14, and Schedule K-1 (Form 1041), box 11, code C*	**16.**	( )		
17. Combine lines 14 through 16. If the result is a (loss), enter it as a positive amount. If the result is zero or a gain, enter -0-			**17.**	0
18. **Unrecaptured section 1250 gain.** Subtract line 17 from line 13. If zero or less, enter -0-. If more than zero, enter the result here and on Schedule D, line 19			**18.**	15,000

*If you are filing Form 2555 or 2555-EZ (relating to foreign earned income), see the footnote in the Foreign Earned Income Tax Worksheet in the Form 1040 instructions before completing this line.

Line 20

If lines 18 and 19 of Schedule D are both zero or blank, the Qualified Dividends and Capital Gain Tax Worksheet in the Form 1040 instructions is completed. A copy of this worksheet can be found earlier in this chapter.

If lines 18 and 19 are **not** both zero or blank, the Schedule D Tax Worksheet in the Schedule D instructions is completed.

Example 22. Use the same facts as **Example 20.** Jean's taxable income, including the gain from the sale of her collectibles, is $200,000 for 2013 and her filing status is single. Her Schedule D Tax Worksheet follows.

Schedule D Tax Worksheet

Keep for Your Records

Complete this worksheet only if line 18 or line 19 of Schedule D is more than zero. Otherwise, complete the Qualified Dividends and Capital Gain Tax Worksheet in the Instructions for Form 1040, line 44 (or in the Instructions for Form 1040NR, line 42) to figure your tax. Before completing this worksheet, complete Form 1040 through line 43 (or Form 1040NR through line 41).

Exception: Do not use the Qualified Dividends and Capital Gain Tax Worksheet **or** this worksheet to figure your tax if:

- Line 15 or line 16 of Schedule D is zero or less **and** you have no qualified dividends on Form 1040, line 9b (or Form 1040NR, line 10b); **or**
- Form 1040, line 43 (or Form 1040NR, line 41) is zero or less.

Instead, see the instructions for Form 1040, line 44 (or Form 1040NR, line 42).

1.	Enter your taxable income from Form 1040, line 43 (or Form 1040NR, line 41). (However, if you are filing Form 2555 or 2555-EZ (relating to foreign earned income), enter instead the amount from line 3 of the Foreign Earned Income Tax Worksheet in the Instructions for Form 1040, line 44) . . . 1.					200,000
2.	Enter your qualified dividends from Form 1040, line 9b (or Form 1040NR, line 10b) . . . 2.		0			
3.	Enter the amount from Form 4952 (used to figure investment interest expense deduction), line 4g . . . 3.	0				
4.	Enter the amount from Form 4952, line 4e* . . . 4.	0				
5.	Subtract line 4 from line 3. If zero or less, enter -0- . . . 5.		0			
6.	Subtract line 5 from line 2. If zero or less, enter -0-** . . . 6.			0		
7.	Enter the **smaller** of line 15 or line 16 of Schedule D . . . 7.		10,000			
8.	Enter the **smaller** of line 3 or line 4 . . . 8.		0			
9.	Subtract line 8 from line 7. If zero or less, enter -0-** . . . 9.			10,000		
10.	Add lines 6 and 9 . . . 10.				10,000	
11.	Add lines 18 and 19 of Schedule D** . . . 11.			10,000		
12.	Enter the **smaller** of line 9 or line 11 . . . 12.				10,000	
13.	Subtract line 12 from line 10 . . . 13.					0
14.	Subtract line 13 from line 1. If zero or less, enter -0- . . . 14.					200,000
15.	Enter: • $36,250 if single or married filing separately; • $72,500 if married filing jointly or qualifying widow(er); or • $48,600 if head of household } . . . 15.			36,250		
16.	Enter the **smaller** of line 1 or line 15 . . . 16.				36,250	
17.	Enter the **smaller** of line 14 or line 16 . . . 17.			36,250		
18.	Subtract line 10 from line 1. If zero or less, enter -0- . . . 18.		190,000			
19.	Enter the **larger** of line 17 or line 18 . . . 19.				190,000	
20.	Subtract line 17 from line 16. This amount is taxed at 0%. . . . 20.				0	
	If lines 1 and 16 are the same, skip lines 21 through 41 and go to line 42. Otherwise, go to line 21.					
21.	Enter the **smaller** of line 1 or line 13 . . . 21.			0		
22.	Enter the amount from line 20 (if line 20 is blank, enter -0-) . . . 22.			0		
23.	Subtract line 22 from line 21. If zero or less, enter -0- . . . 23.			0		
24.	Enter: • $400,000 if single; • $225,000 if married filing separately; • $450,000 if married filing jointly or qualifying widow(er); or • $425,000 if head of household } . . . 24.			400,000		
25.	Enter the smaller of line 1 or line 24 . . . 25.			200,000		
26.	Add lines 19 and 20 . . . 26.			190,000		
27.	Subtract line 26 from line 25. If zero or less, enter -0- . . . 27.			10,000		
28.	Enter the **smaller** of line 23 or line 27 . . . 28.				0	
29.	Multiply line 28 by 15% (.15) . . . 29.					0
30.	Add lines 22 and 28 . . . 30.			0		
	If lines 1 and 30 are the same, skip lines 31 through 41 and go to line 42. Otherwise, go to line 31.					

For Example 22

Schedule D Tax Worksheet—*Continued*

31.	Subtract line 30 from line 21	**31.** 0		
32.	Multiply line 31 by 20% (.20)		**32.**	0
	If Schedule D, line 19, is zero or blank, skip lines 33 through 38 and go to line 39. Otherwise, go to line 33.			
33.	Enter the **smaller** of line 9 above or Schedule D, line 19	**33.** 0		
34.	Add lines 10 and 19	**34.** 200,000		
35.	Enter the amount from line 1 above	**35.** 200,000		
36.	Subtract line 35 from line 34. If zero or less, enter -0-	**36.** 0		
37.	Subtract line 36 from line 33. If zero or less, enter -0-	**37.** 0		
38.	Multiply line 37 by 25% (.25)		**38.**	0
	If Schedule D, line 18, is zero or blank, skip lines 39 through 41 and go to line 42. Otherwise, go to line 39.			
39.	Add lines 19, 20, 28, 31, and 37	**39.** 190,000		
40.	Subtract line 39 from line 1	**40.** 10,000		
41.	Multiply line 40 by 28% (.28)		**41.**	2,800
42.	Figure the tax on the amount on **line 19.** If the amount on line 19 is less than $100,000, use the Tax Table to figure the tax. If the amount on line 19 is $100,000 or more, use the Tax Computation Worksheet		**42.**	46,831
43.	Add lines 29, 32, 38, 41, and 42		**43.**	49,631
44.	Figure the tax on the amount on **line 1.** If the amount on line 1 is less than $100,000, use the Tax Table to figure the tax. If the amount on line 1 is $100,000 or more, use the Tax Computation Worksheet		**44.**	50,131
45.	**Tax on all taxable income (including capital gains and qualified dividends).** Enter the **smaller** of line 43 or line 44. Also include this amount on Form 1040, line 44 (or Form 1040NR, line 42). (If you are filing Form 2555 or 2555-EZ, do not enter this amount on Form 1040, line 44. Instead, enter it on line 4 of the Foreign Earned Income Tax Worksheet in the Form 1040 instructions)		**45.**	49,631

*If applicable, enter instead the smaller amount you entered on the dotted line next to line 4e of Form 4952.

**If you are filing Form 2555 or 2555-EZ, see the footnote in the Foreign Earned Income Tax Worksheet in the Instructions for Form 1040, line 44, before completing this line.

Line 21

If the amount on line 16 of Schedule D is a loss, enter on line 21 and on line 13 of Form 1040, the smaller of:

- The loss on line 16, or
- $3,000 ($1,500 if MFS).

The taxpayer has a capital loss carryover to the following year if there is a loss on line 16 and either the loss is more than the amount on line 21 or the amount on line 41 of Form 1040 is less than zero.