



**Note:** *The draft you are looking for begins on the next page.*

## **Caution: DRAFT—NOT FOR FILING**

This is an early release draft of an IRS tax form, instructions, or publication, which the IRS is providing for your information. **Do not file draft forms.** We incorporate all significant changes to forms posted with this coversheet. However, unexpected issues occasionally arise, or legislation is passed—in this case, we will post a new draft of the form to alert users that changes were made to the previously posted draft. Thus, there are never any changes to the last posted draft of a form and the final revision of the form. Forms and instructions are subject to OMB approval before they can be officially released, so we post drafts of them until they are approved. Drafts of instructions and pubs usually have some additional changes before their final release. Early release drafts are at [IRS.gov/DraftForms](https://www.irs.gov/DraftForms) and remain there after the final release is posted at [IRS.gov/LatestForms](https://www.irs.gov/LatestForms). Also see [IRS.gov/Forms](https://www.irs.gov/Forms).

Most forms and publications have a page on IRS.gov: [IRS.gov/Form1040](https://www.irs.gov/Form1040) for Form 1040; [IRS.gov/Pub501](https://www.irs.gov/Pub501) for Pub. 501; [IRS.gov/W4](https://www.irs.gov/W4) for Form W-4; and [IRS.gov/ScheduleA](https://www.irs.gov/ScheduleA) for Schedule A (Form 1040), for example, and similarly for other forms, pubs, and schedules for Form 1040. When typing in a link, type it into the address bar of your browser, not a Search box on IRS.gov.

If you wish, you can submit comments to the IRS about draft or final forms, instructions, or pubs at [IRS.gov/FormsComments](https://www.irs.gov/FormsComments). Include “NTF” followed by the form or pub number (for example, “NTF1040”, “NTFW4”, “NTF501”, etc.) in the body of the message to route your message properly. We cannot respond to all comments due to the high volume we receive and may not be able to consider many suggestions until the subsequent revision of the product, but we will review each “NTF” message. If you have comments on reducing paperwork and respondent (filer) burden, with respect to draft or final forms, please respond to the relevant information collection through the Federal Register process; for more info, click [here](#).

2025



# Instructions for Schedule D (Form 1120-S)

## Capital Gains and Losses and Built-in Gains

Section references are to the Internal Revenue Code unless otherwise noted.

### Future Developments

For the latest information about developments related to Schedule D (Form 1120-S) and its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form1120S](https://www.irs.gov/Form1120S).

### What's New

**New codes to use for reporting digital asset transactions.** Codes G, H, I, J, K, and L were added to Schedule D (Form 1120-S), lines 1b, 2, 3, 8b, 9, and 10 to include the reporting of digital asset transactions. See Form 1099-DA, Digital Asset Proceeds From Broker Transactions, and Form 8949, Sales and Other Dispositions of Capital Assets, and their instructions for additional information regarding digital assets.

**Deferral of gain invested in a qualified opportunity fund (QOF).** Taxpayers who made a deferral election for gains invested in a QOF that meets the 7-year holding period threshold may be eligible for a basis adjustment. See Form 8997 and its instructions for additional information regarding investments in QOFs.

## General Instructions

### Purpose of Schedule

Use Schedule D to report the following.

- The overall capital gains and losses from transactions reported on Form 8949, Sales and Other Dispositions of Capital Assets.
- Certain transactions the corporation doesn't have to report on Form 8949.
- Capital gains from Form 6252, Installment Sale Income.
- Capital gains and losses from Form 8824, Like-Kind Exchanges.
- Gains on distributions to shareholders of appreciated capital assets.
- Capital gain distributions.
- Tax on built-in gains. See [Part III. Built-in Gains Tax](#), later.

### Other Forms the Corporation May Have To File

Use Form 8949 to report the sale or exchange of a capital asset (defined later) not reported on another form or schedule and to report the deferral or exclusion of capital gains. See the Instructions for Form 8949. Complete all necessary pages of Form 8949 before you complete line 1b, 2, 3, 8b, 9, or 10 of Schedule D. See [Lines 1a and](#)

[8a—Transactions Not Reported on Form 8949](#), later, for more information about when to use Form 8949.

Use Form 4797, Sales of Business Property, to report the following.

- The sale, exchange, or distribution of real property used in a trade or business.
- The sale, exchange, or distribution of depreciable and amortizable property.
- The sale or other disposition of securities or commodities held in connection with a trading business, if the corporation made a mark-to-market election.
- The involuntary conversion (from other than casualty or theft) of property used in the corporation's trade or business and capital assets held in connection with a trade or business or a transaction entered into for profit.
- The disposition of noncapital assets other than inventory or property held primarily for sale to customers in the ordinary course of the corporation's trade or business.
- Election to defer a qualified section 1231 gain invested in a qualified opportunity fund (QOF).

Use Form 4684, Casualties and Thefts, to report involuntary conversions of property due to casualty or theft.

Use Form 6781, Gains and Losses From Section 1256 Contracts and Straddles, to report gains and losses from section 1256 contracts and straddles.

**Additional information.** For more information, see the instructions for the forms listed above. Also, see Pub. 544, Sales and Other Dispositions of Assets, and Pub. 550, Investment Income and Expenses.

### Capital Assets

Each item of property the corporation held (whether or not connected with its trade or business) is a capital asset except the following.

- Stock in trade or other property included in inventory or held mainly for sale to customers. However, see the [Note](#) below.
- Accounts or notes receivable acquired in the ordinary course of the trade or business for services rendered or from the sale of stock in trade or other property included in inventory or held mainly for sale to customers.
- Depreciable or real property used in the trade or business, even if it is fully depreciated.
- Certain copyrights; literary, musical, or artistic compositions; letters or memoranda; or similar property. However, see the [Note](#) below.
- Certain patents, inventions, models, or designs (whether or not patented); secret formulas or processes; or similar property.
- U.S. Government publications, including the Congressional Record, that the corporation received from the government, other than by purchase at the normal sales price, or that the corporation got from another taxpayer who

had received it in a similar way, if the corporation's basis is determined by reference to the previous owner's basis.

- Certain commodities derivative financial instruments held by a dealer in connection with its dealer activities.
- Certain identified hedging transactions entered into in the normal course of the trade or business.
- Supplies regularly used in the trade or business.

For details, see section 1221(a).

**Note:** The corporation can elect to treat as capital assets certain musical compositions or copyrights in musical works it sold or exchanged. See section 1221(b)(3) and Pub. 550 for details.

## Short- or Long-Term Gain or Loss

Report short-term gains or losses in Part I. Report long-term gains or losses in Part II. The holding period for short-term capital gains and losses is generally 1 year or less. The holding period for long-term capital gains and losses is generally more than 1 year. However, an exception applies for certain sales of applicable partnership interests. See [Transactions with respect to applicable partnership interests](#), later.

For more information about holding periods, see the Instructions for Form 8949.

## Items for Special Treatment

**Note:** For more information, see Pub. 544.

**Gain from installment sales.** If the corporation sold property at a gain and it will receive a payment in a tax year after the year of sale, it must generally report the sale on the installment method unless it elects not to. However, the installment method may not be used to report sales of stock or securities traded on an established securities market.

Use Form 6252 to report the sale on the installment method. Also, use Form 6252 to report any payment received during the tax year from a sale made in an earlier year that was reported on the installment method. Enter gain from the installment sales on Schedule D, line 4 or line 11, as applicable. See the instructions for Form 6252.

To elect out of the installment method, report the full amount of the gain on Form 8949, Form 4797, or both for the year of the sale on a return filed by the due date (including extensions). If the original return was filed on time without making the election, the corporation can make the election on an amended return filed no later than 6 months after the original due date of the return (excluding extensions). Enter "Filed pursuant to section 301.9100-2" at the top of the amended return.

**Gain on distributions of appreciated property.** Generally, gain (but not loss) is recognized on a nonliquidating distribution of appreciated property to the extent that the property's fair market value (FMV) exceeds its adjusted basis. See section 311.

**Exclusion of gain from DC Zone assets.** If the corporation sold or exchanged a District of Columbia Enterprise Zone (DC Zone) asset acquired after 1997 and before 2012, and held for more than 5 years, it can exclude any qualified capital gain that the corporation would otherwise include in income. The exclusion applies to an interest in, or property of, certain businesses operating in the District of Columbia.

**DC Zone asset.** A DC Zone asset is any of the following.

- DC Zone business stock.
- DC Zone partnership interest.

- DC Zone business property.

**Qualified capital gain.** Qualified capital gain is any gain recognized on the sale or exchange of a DC Zone asset, but doesn't include any of the following.

- Gain attributable to periods before 1998 and after 2016.
- Gain treated as ordinary income under section 1245.
- Gain attributable to unrecaptured section 1250 gain on the sale of an interest in a partnership that is a DC Zone business. See the instructions for Form 1120-S, Schedule K, line 8c, for information on how to report unrecaptured section 1250 gain.
- Gain on the sale or exchange of an interest in a partnership attributable to real property or an intangible asset that isn't an integral part of a DC Zone business.
- Gain from a related-party transaction. See *Sales and Exchanges Between Related Persons* in chapter 2 of Pub. 544.

**How to report.** If applicable, report the sale or exchange on Form 8949, Part II, as the corporation otherwise would without regard to the exclusion (with the appropriate box checked). Enter "X" in column (f). Enter the amount of the exclusion as a negative number (in parentheses) in column (g). Complete all remaining columns. See the Instructions for Form 8949 for details.

Report the sale or exchange of DC Zone business property on Form 4797. See the Instructions for Form 4797 for details.

**Exclusion of gain from qualified community assets.** If the corporation sold or exchanged a qualified community asset acquired after 2001 and before 2010, it may be able to exclude any qualified capital gain that the corporation would otherwise include in income. The exclusion applies to an interest in, or property of, certain renewal community businesses.

**Qualified community asset.** A qualified community asset is any of the following.

- Qualified community stock.
- Qualified community partnership interest.
- Qualified community business property.

**Qualified capital gain.** Qualified capital gain is any gain recognized on the sale or exchange of a qualified community asset, but doesn't include any of the following.

- Gain treated as ordinary income under section 1245.
- Section 1250 gain figured as if section 1250 applied to all depreciation rather than the additional depreciation.
- Gain attributable to real property, or an intangible asset, that isn't an integral part of a renewal community business.
- Gain from a related-party transaction. See *Sales and Exchanges Between Related Persons* in chapter 2 of Pub. 544.
- Gains attributable to periods after December 31, 2014.

See section 1400F (as in effect before its repeal) for more details and special rules.

**How to report.** If applicable, report the sale or exchange on Form 8949, Part II, as the corporation otherwise would without regard to the exclusion (with the appropriate box checked). Enter "X" in column (f) and enter the amount of the excluded gain as a negative number (in parentheses) in column (g). Complete all remaining columns. See the Instructions for Form 8949.

Report the sale or exchange of qualified community business property on Form 4797. See the Instructions for Form 4797 for more details.

**Gain on the constructive sale of certain appreciated financial positions.** Generally, the S corporation must recognize gain (but not loss) on the date it enters into a constructive sale of any appreciated position in stock, a partnership interest, or certain debt instruments as if the position were disposed of at FMV on that date.

The S corporation is treated as making a constructive sale of an appreciated position when it (or a related person, in some cases) does one of the following.

- Enters into a short sale of the same or substantially identical property (that is, a “short sale against the box”).
- Enters into an offsetting notional principal contract relating to the same or substantially identical property.
- Enters into a futures or forward contract to deliver the same or substantially identical property.
- Acquires the same or substantially identical property (if the appreciated position is a short sale, an offsetting notional principal contract, or a futures or forward contract).

**Exception.** Generally, constructive sale treatment doesn't apply if:

- The S corporation closed the transaction before the end of the 30th day after the end of the tax year in which it was entered into,
- The S corporation held the appreciated position to which the transaction relates throughout the 60-day period starting on the date the transaction was closed, and
- At no time during that 60-day period was the S corporation's risk of loss reduced by holding certain other positions.

For details and other exceptions to these rules, see Pub. 550.

**Gain from certain constructive ownership transactions.** Gain in excess of the net underlying long-term gain the corporation would have recognized if it had held a financial asset directly during the term of a derivative contract must be treated as ordinary income. See section 1260.

**Gain on disposition of market discount bonds.** In general, a capital gain upon the disposition of a market discount bond is treated as interest income to the extent of accrued market discount as of the date of disposition. See sections 1276 through 1278 and Pub. 550 for more information on market discount. See the Instructions for Form 8949 for detailed information about how to report the disposition of a market discount bond.

**Gain or loss on distribution of property in complete liquidation.** Generally, gain or loss is recognized on property distributed in a complete liquidation. Treat the property as if it had been sold at its FMV. See section 336.

**Gain or loss on an option to buy or sell property.** See sections 1032 and 1234 for the rules that apply to a purchaser or grantor of an option or a securities futures contract (as defined in section 1234B). See Pub. 550 for details.

**Gain or loss from a short sale of property.** Report the gain or loss on Form 8949 to the extent that the property used to close the short sale is considered a capital asset in the hands of the taxpayer. Report any short sale in the year the sale closes.

If a short sale closed in 2025 but the corporation didn't get a 2025 Form 1099-B or Form 1099-DA (or substitute statement) for it because the corporation entered into it before 2011, report it on Form 8949 in Part I with box C or box I checked or Part II with box F or box L checked (whichever

applies). In column (a), enter (for example) “100 sh. XYZ Co.—2010 short sale closed.” Fill in the other columns according to their instructions. Report the short sale the same way if the corporation received a 2025 Form 1099-B or Form 1099-DA (or substitute statement) that doesn't show the proceeds (sales price).

**Gain on certain short-term federal, state, and municipal obligations (other than tax-exempt obligations).** If a short-term governmental obligation (other than a tax-exempt obligation) that is a capital asset is acquired at an acquisition discount, a portion of any gain realized is treated as ordinary income and any remaining balance is treated as a short-term capital gain. See section 1271.

**Contingent payment debt instruments.** Any gain recognized on the sale, exchange, or retirement of a contingent payment debt instrument subject to the noncontingent bond method is generally treated as interest income rather than as capital gain. In certain situations, all or a portion of a loss recognized on the sale, exchange, or retirement of a contingent payment debt instrument subject to the noncontingent bond method may be treated as an ordinary loss rather than as a capital loss. See Regulations section 1.1275-4(b) and Pub. 1212, Guide to Original Issue Discount Instruments, for more information on contingent payment debt instruments subject to the noncontingent bond method. See the Instructions for Form 8949 for detailed information about how to report the disposition of a contingent payment debt instrument.

**Loss from a sale or exchange between the corporation and a related person.** Except for distributions in complete liquidation of a corporation, no loss is allowed from the sale or exchange of property between the corporation and certain related persons. See section 267.

**Loss from a wash sale.** A wash sale occurs if the corporation acquires (by purchase or exchange), or has a contract or option to acquire, substantially identical stock or securities within 30 days before or after the date of the sale or exchange. The wash sale rules also generally apply to transactions involving digital assets that are also stock or securities for tax purposes (tokenized securities). The corporation can't deduct a loss from a wash sale of stock or securities (including contracts or options to acquire or sell stock or securities) unless the corporation is a dealer in stock or securities and the loss was sustained in a transaction made in the ordinary course of the corporation's trade or business. For more information on wash sales, see section 1091 and Pub. 550.

The wash sale rules don't apply to a redemption of shares in a floating-NAV (net asset value) money market fund (MMF). For redemptions of shares in any MMF after October 2, 2023, the wash sale rules don't apply.

Report the transaction as the corporation otherwise would on Form 8949, Part I or II (depending on how long the corporation owned the stock or securities). Check the appropriate box. Enter “W” in column (f). Enter the nondeductible loss as a positive number in column (g). Complete all remaining columns. See the Instructions for Form 8949.

**Loss from securities that are capital assets that become worthless during the year.** Except for securities held by a bank, treat the loss as a capital loss as of the last day of the tax year. See section 582 for the rules on the treatment of

DRAFT

DRAFT

securities held by a bank. Also see section 165(g) for rules regarding the deductibility of worthless securities.

**Undistributed long-term gains from a regulated investment company (RIC) or real estate investment trust (RE-IT).** Report the corporation's share of long-term gains from Form 2439, Notice to Shareholder of Undistributed Long-Term Capital Gains, on Form 8949, Part II (with box F or box L checked). Enter "From Form 2439" in column (a). Enter the gain in column (h). Leave all other columns blank. See the Instructions for Form 8949.

**NAV method for money market funds.** Report capital gain or loss determined under the NAV method with respect to shares in a money market fund on Form 8949, Part I, with box C or box I checked. Enter the name of each fund followed by "(NAV)" in column (a). Enter the net gain or loss in column (h). Leave all other columns blank. See the Instructions for Form 8949.

**Deferral of gain invested in a qualified opportunity fund (QOF).** If the corporation realized gain from an actual, or deemed, sale or exchange with an unrelated person and during the 180-day period beginning on the date the corporation realized the gain, invested an amount of the gain in a QOF, the corporation may be able to elect to temporarily defer part or all of the gain that would otherwise be included in income. If the corporation makes the election, the gain is included in income only to the extent, if any, the amount of realized gain exceeds the aggregate amount invested in a QOF during the 180-day period beginning on the date gain is realized. The corporation may also be able to permanently exclude the gain from the sale or exchange of any investment in a QOF if the investment is held for at least 10 years. For more information, see section 1400Z-2.

**Qualified opportunity fund (QOF).** A QOF is any investment vehicle that is organized as either a corporation or partnership for the purpose of investing in eligible property that is located in a qualified opportunity zone and that satisfies the ownership requirements of section 1400Z-2.

**How to report.** If applicable, report the eligible gain on Schedule D as it would otherwise be reported if the corporation were not making the election. See the Instructions for Form 8949 for information on how to report the deferral. You will also need to annually attach to your tax return Form 8997, Initial and Annual Statement of Qualified Opportunity Fund (QOF) Investments, until you dispose of the QOF investment. For more information, see Form 8997 and its instructions.

**Bonds and other debt instruments.** See Pub. 550.

**Collectibles gain (28% rate gain) or loss.** Report any 28% rate gain or loss on Form 1120-S, Schedule K, line 8b (and each shareholder's share in box 8b of Schedule K-1 (Form 1120-S)). A collectibles gain or loss is any long-term gain or deductible long-term loss from the sale or exchange of a collectible that is a capital asset.

Collectibles include works of art, rugs, antiques, metals (such as gold, silver, and platinum bullion), gems, stamps, coins, alcoholic beverages, and certain other tangible property.

Report any 28% rate gain or loss from a sale or exchange of a collectible on Form 8949, Part II (with the appropriate box checked). See the Instructions for Form 8949.

Also include gain (but not loss) from the sale or exchange of an interest in a partnership or trust held more than 1 year and attributable to unrealized appreciation of collectibles.

See Regulations section 1.1(h)-1. Also, attach the statement required under Regulations section 1.1(h)-1(e).

**Disposition of converted wetland or highly erodible cropland.** Any loss on the disposition of converted wetland or highly erodible cropland that is first used for farming after March 1, 1986, is reported as a long-term capital loss on Form 8949, but any gain on such a disposition is reported as ordinary gain on Form 4797. See section 1257 for details.

**Nonbusiness bad debts.** A nonbusiness bad debt must be treated as a short-term capital loss and can be deducted only in the year the debt becomes totally worthless. See section 166(d) and *Nonbusiness Bad Debts* in Pub. 550 for details.

**Nonrecognition of gain on sale of stock to an employee stock ownership plan (ESOP) or an eligible cooperative.** See section 1042 and Temporary Regulations section 1.1042-1T for rules under which the corporation can elect not to recognize gain from the sale of certain stock to an ESOP or an eligible cooperative.

**Real estate subdivided for sale.** Certain lots or parcels that are part of a tract of real estate subdivided for sale may be treated as capital assets. See section 1237.

**Rollover of gain from qualified small business (QSB) stock.** If the corporation sold QSB stock (defined below) it held for more than 6 months, it can postpone gain if it purchased other QSB stock during the 60-day period that began on the date of the sale. The corporation must recognize gain to the extent the sale proceeds exceed the cost of the replacement stock. Reduce the basis of the replacement stock by any postponed gain.

If the corporation chooses to postpone gain, report the entire gain realized on the sale on Form 8949, Part I or II (with the appropriate box checked). Enter "R" in column (f). Enter the amount of the postponed gain as a negative number (in parentheses) in column (g). Complete all remaining columns. See the Instructions for Form 8949.

**Caution:** The corporation must also separately state the amount of the gain rolled over on qualified stock under section 1045 on Form 1120-S, Schedule K, line 10. Each shareholder must determine if they qualify for the rollover at the shareholder level. Also, the corporation must separately state on that line (and not on Form 8949) any gain that could qualify for the section 1045 rollover at the shareholder level instead of the corporate level (because a shareholder was entitled to purchase replacement stock). If the corporation had a gain on qualified stock that could qualify for the exclusion under section 1202, report that gain on Form 8949 (and on Form 1120-S, Schedule K, line 10).

To be QSB stock, the stock must meet all of the following tests.

- It must be stock in a C corporation.
- It must have been originally issued after August 10, 1993.
- As of the date the stock was issued, the corporation was a qualified small business. A qualified small business is a domestic C corporation with total gross assets of \$75 million (\$50 million if the stock was issued on or before July 4, 2025) or less (a) at all times after August 9, 1993, and before the stock was issued; and (b) immediately after the stock was issued. Gross assets include those of any predecessor of the corporation. All corporations that are members of the same parent-subsidiary controlled group are treated as one corporation.
- The corporation must have acquired the stock at its original issue (either directly or through an underwriter),

DRAFT

DRAFT

either in exchange for money or other property or as pay for services (other than as an underwriter) to the corporation. In certain cases, the corporation may meet the test if it acquired the stock from another person who met this test (such as by gift or inheritance) or through a conversion or exchange of QSB stock held by the corporation.

- During substantially all the time the corporation held the stock:

1. The issuer was a C corporation;
2. At least 80% of the value of the issuer's assets were used in the active conduct of one or more qualified businesses (defined below); and
3. The issuing corporation wasn't a foreign corporation, domestic international sales corporation (DISC), former DISC, corporation that has made (or that has a subsidiary that has made) a section 936 election, RIC, REIT, real estate mortgage investment conduit (REMIC), financial asset securitization investment trust (FASIT), or cooperative.

**Note:** A specialized small business investment company (SSBIC) is treated as having met test 2 above.

A qualified business is any business other than the following.

- One involving services performed in the field of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, athletics, financial services, or brokerage services.
- One whose principal asset is the reputation or skill of one or more employees.
- Any banking, insurance, financing, leasing, investing, or similar business.
- Any farming business (including the raising or harvesting of trees).
- Any business involving the production of products for which percentage depletion can be claimed.
- Any business of operating a hotel, motel, restaurant, or similar business.

For more details about limits and additional requirements that may apply, see Pub. 550 or section 1202.

**Sale of a partnership interest.** A sale or other disposition of an interest in a partnership owning unrealized receivables or inventory items may result in ordinary gain or loss. See Pub. 541, Partnerships.

**Special rules for traders in securities.** Traders in securities are engaged in the business of buying and selling securities for their own account. To be engaged in a business as a trader in securities, the corporation:

- Must seek to profit from daily market movements in the prices of securities and not from dividends, interest, or capital appreciation;
- Must be involved in a trading activity that is substantial; and
- Must carry on the activity with continuity and regularity.

The following facts and circumstances should be considered in determining if a corporation's activity is a business.

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

Like an investor, a trader must generally report each sale of securities (taking into account commissions and any other

costs of acquiring or disposing of the securities) on Form 8949 unless one of the exceptions described under *Exceptions to reporting each transaction on a separate row* in the Instructions for Form 8949 applies. However, if a trader made the mark-to-market election (see the Instructions for Form 4797), each transaction is reported in Part II of Form 4797 instead of on Form 8949.

The limitation on investment interest expense that applies to investors doesn't apply to interest paid or incurred in a trading business. A trader reports interest expense and other expenses (excluding commissions and other costs of acquiring and disposing of securities) from a trading business on page 1 of Form 1120-S.

A trader may also hold securities for investment. The rules for investors will generally apply to those securities. If they apply, allocate interest and other expenses between the corporation's trading business and investment securities. Report investment interest expense on Form 1120-S, Schedule K, line 12c; and in box 12 of Schedule K-1 (Form 1120-S) using code H.

**Transactions with respect to applicable partnership interests.** The long-term holding period for gains and losses with respect to applicable partnership interests is more than 3 years. If the holding period is 3 years or less, gains and losses with respect to applicable partnership interests are treated as short term. An applicable partnership interest is any interest in a partnership that, directly or indirectly, is transferred to (or is held by) the taxpayer in connection with the performance of substantial services by the taxpayer, or any other related person, in any applicable trade or business. See section 1061 and Pub. 541 for details.

Figure gains and losses with respect to the applicable partnership interest on Form 8949 by applying the special holding period rules discussed above. See the Instructions for Form 8949.

## Specific Instructions

Complete all necessary pages of Form 8949 before completing line 1b, 2, 3, 8b, 9, or 10 of Schedule D.

### Rounding Off to Whole Dollars

Cents can be rounded to whole dollars on Schedule D. If cents are rounded to whole dollars, all amounts must be rounded. To round, drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next dollar. For example, \$1.49 becomes \$1 and \$2.50 becomes \$3.

If two or more amounts have to be added to figure the amount to enter on a line, include cents when adding the amounts and round off only the total.

### Disposal of QOF Investment

If you disposed of any investment in a QOF during the tax year, check the box on the top of Schedule D and see the Instructions for Form 8949 for additional reporting requirements.

## Parts I and II

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

The corporation can report on line 1a (for short-term transactions) or line 8a (for long-term transactions) the

aggregate totals from any transactions (other than sales of collectibles) for which:

- The corporation received a Form 1099-B or Form 1099-DA (or substitute statement) that shows basis was reported to the IRS and doesn't show any adjustments in box 1f or box 1g of Form 1099-B or box 1h or 1i of Form 1099-DA;
- The Ordinary checkbox in box 2 of Form 1099-B or box 6 of Form 1099-DA (or substitute statement) isn't checked;
- The QOF checkbox in box 3 of Form 1099-B or box 3b of Form 1099-DA (or substitute statement) isn't checked; and
- The corporation doesn't need to make any adjustments to the basis or type of gain or loss reported on Form 1099-B or Form 1099-DA (or substitute statement), or to its gain or loss.

See *How To Complete Form 8949, Columns (f) and (g)* in the Instructions for Form 8949 for details about possible adjustments to the corporation's gain or loss.

If the corporation chooses to report these transactions on lines 1a and 8a, don't report them on Form 8949. Also, the corporation doesn't need to attach a statement to explain the entries on lines 1a and 8a.

Figure gain or loss on each line. Subtract the cost or other basis in column (e) from the proceeds (sales price) in column (d). Enter the gain or loss in column (h). Enter negative amounts in parentheses.

**Example 1—basis reported to the IRS.** The corporation received a Form 1099-B reporting the sale of stock held for 3 years, showing proceeds (in box 1d) of \$6,000 and cost or other basis (in box 1e) of \$2,000. Box 12 is checked, meaning that basis was reported to the IRS. The corporation doesn't need to make any adjustments to the amounts reported on Form 1099-B or enter any codes. This was the corporation's only 2025 transaction. Instead of reporting this transaction on Form 8949, the corporation can enter \$6,000 on Schedule D, line 8a, column (d); \$2,000 in column (e); and \$4,000 (\$6,000 – \$2,000) in column (h).

If the corporation had a second transaction that was the same except that the proceeds were \$5,000 and the basis was \$3,000, combine the two transactions. Enter \$11,000 (\$6,000 + \$5,000) on Schedule D, line 8a, column (d); \$5,000 (\$2,000 + \$3,000) in column (e); and \$6,000 (\$11,000 – \$5,000) in column (h).

**Example 2—basis not reported to the IRS.** The corporation received a Form 1099-B showing proceeds (in box 1d) of \$6,000 and cost or other basis (in box 1e) of \$2,000. Box 12 isn't checked, meaning that basis wasn't reported to the IRS. Don't report this transaction on line 1a or line 8a. Instead, report the transaction on Form 8949. Complete all necessary pages of Form 8949 before completing line 1b, 2, 3, 8b, 9, or 10 of Schedule D.

**Example 3—adjustment.** The corporation received a Form 1099-B showing proceeds (in box 1d) of \$6,000 and cost or other basis (in box 1e) of \$2,000. Box 12 is checked, meaning that basis was reported to the IRS. However, the basis shown in box 1e is incorrect. Don't report this transaction on line 1a or line 8a. Instead, report the transaction on Form 8949. See the instructions for Form 8949, columns (f), (g), and (h). Complete all necessary pages of Form 8949 before completing line 1b, 2, 3, 8b, 9, or 10 of Schedule D.

### Lines 1b, 2, 3, 8b, 9, and 10, Column (h)—Transactions Reported on Form 8949

Figure gain or loss on each line. First, subtract cost or other basis in column (e) from proceeds (sales price) in column (d).

Then, combine the results with any adjustments in column (g). Enter the results 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 (\$6,000 – \$2,000 – \$1,000) in column (h).

### Line 13. Capital Gain Distributions

Enter the total capital gain distributions paid to the corporation during the year.

### Part III. Built-in Gains Tax

Section 1374 provides for a tax on built-in gains. The built-in gains tax may apply to the following S corporations.

1. An S corporation that was a C corporation before it elected to be an S corporation.
2. An S corporation that acquired an asset with a basis determined (in whole or in part) by reference to its basis (or the basis of any other property) in the hands of a C corporation (a **transferred-basis acquisition**). See section 1374(d)(8).

An S corporation may owe the tax if it has net recognized built-in gain during the applicable recognition period. For computation details, see Regulations section 1.1374-1(a).

The applicable recognition period is the 5-year period beginning:

- For an asset held when the S corporation was a C corporation, on the first day of the first tax year for which the corporation is an S corporation; or
- For a transferred-basis acquisition, on the date the asset was acquired by the S corporation.

A corporation described in both (1) and (2) above must figure the built-in gains tax separately for the group of assets it held at the time its S election became effective and for each group of transferred-basis acquisitions. For details, see Regulations section 1.1374-8.

Certain transactions involving the disposal of timber, coal, or domestic iron ore under section 631 aren't subject to the built-in gains tax. See Rev. Rul. 2001-50, which is on page 343 of Internal Revenue Bulletin 2001-43 at [IRS.gov/pub/irs-irbs/irb01-43.pdf](https://www.irs.gov/pub/irs-irbs/irb01-43.pdf).

### Line 16

Generally, enter the amount that would be the taxable income of the corporation for the tax year if only recognized built-in gains (including any carryover of gain under section 1374(d)(2)(B)) and recognized built-in losses were taken into account.

Generally, recognized built-in gain includes the following items.

1. Any gain recognized during the applicable recognition period on the sale, distribution, or other disposition of any asset, except to the extent the corporation establishes that:
  - a. The asset wasn't held by the corporation as of the beginning of the applicable recognition period, or
  - b. The gain exceeds the excess of the FMV of the asset as of the beginning of the applicable recognition period over the adjusted basis of the asset at that time.

DRAFT

DRAFT

2. Any item of income that is properly taken into account during the applicable recognition period but is attributable to periods before the applicable recognition period.

Generally, recognized built-in loss includes the following items.

1. Any loss recognized during the applicable recognition period on the disposition of any asset to the extent the corporation establishes that:

- a. The asset was held by the corporation as of the beginning of the applicable recognition period; and
- b. The loss doesn't exceed the excess of the adjusted basis of the asset as of the beginning of the applicable recognition period, over the FMV of the asset as of that time.

2. Any amount that is allowed as a deduction during the applicable recognition period (determined without regard to any carryover) but is attributable to periods before the applicable recognition period.

For details, see section 1374(d) and Regulations section 1.1374-4.

The corporation must show on an attachment its total net recognized built-in gain and list separately any capital gain or loss and ordinary gain or loss.

**Line 17**

Figure taxable income by completing lines 1 through 28 of Form 1120. Follow the Instructions for Form 1120. Enter the amount from line 28 of Form 1120 on line 17 of Schedule D. Attach to Schedule D the Form 1120 computation or other worksheet used to figure taxable income.

For corporations figuring the built-in gains tax for separate groups of assets, taxable income must be apportioned to each group of assets in proportion to the net recognized built-in gain for each group of assets. For details, see Regulations section 1.1374-8.

**Note:** Taxable income is figured as provided in section 1375(b)(1)(B) and is generally figured in the same manner as taxable income for line 9 of the Excess Net Passive Income Tax Worksheet for Line 23a in the Instructions for Form 1120-S.

**Line 18**

If, for any tax year in the recognition period, the amount on line 16 exceeds the taxable income on line 17, the excess is treated as a recognized built-in gain in the succeeding tax year. This carryover provision applies only in the case of an S

corporation that made its election to be an S corporation after March 30, 1988. See section 1374(d)(2)(B).

For corporations figuring the built-in gains tax for separate groups of assets, don't use the amount from Form 1120-S, Schedule B, line 8. Instead, figure the amount of net unrealized built-in gain separately for each group of assets.

**Line 19**

Enter the section 1374(b)(2) deduction. Generally, this is any net operating loss (NOL) carryforward or capital loss carryforward (to the extent of net capital gain included in recognized built-in gain for the tax year) either arising in tax years for which the corporation was a C corporation or acquired in a transferred-basis acquisition (defined earlier). The section 1374(b)(2) deduction must be figured and applied separately for each separate group of assets. See section 1374(b)(2) and Regulations section 1.1374-5.

**Line 22**

Enter the section 1374(b)(3) credit. Generally, this is any general business credit arising in tax years for which the corporation was a C corporation or acquired in a transferred-basis acquisition (defined earlier). The section 1374(b)(3) credit must be figured and applied separately for each separate group of assets. Section 1374(b)(3) business credit and minimum tax credit carryforwards from C corporation years are subject to the business credit limitation in section 38(c) and the alternative minimum tax (AMT) credit limitation in section 53(c), as modified by Regulations section 1.1374-6(b).

**Caution:** The AMT refundable credit provisions do not apply to S corporations. See sections 1371(b)(1) and 1374(b)(3)(B).

**Line 23**

The built-in gains tax is treated as a loss sustained by the corporation during the same tax year. The character of the deemed loss is determined by allocating the loss proportionately among the net recognized built-in gains giving rise to the tax and attributing the character of each net recognized built-in gain to the allocable portion of the loss. Deduct the tax attributable to the following.

- Short-term capital gain as short-term capital loss on Schedule D, line 6.
- Long-term capital gain as long-term capital loss on Schedule D, line 14.
- Ordinary income as a deduction for taxes on Form 1120-S, line 12.

DRAFT

DRAFT