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 does not 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 is not 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.

See Pub. 954 and section 1400B for more details on DC Zone assets and special rules.

How to report. Report the entire gain realized from the sale or exchange as the corporation otherwise would without regard to the exclusion. On Schedule D, line 6, enter "DC Zone Asset" in column (a) and enter as a loss in column (f) the amount of the allowable exclusion. If reporting the sale directly on Schedule D, line 6, use the line directly below the line on which the corporation is reporting the sale.

Gain on the constructive sale of certain appreciated financial positions. Generally, if the corporation holds an appreciated financial position in stock or certain other interests, it may have to recognize gain (but not loss) if it enters into a constructive sale (such as a "short sale against the box"). See Pub. 550, Investment Income and Expenses.

Gain from certain constructive ownership transactions. Gain in excess of the underlying net long-term capital 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. If any portion of the constructive ownership transaction was open in any prior year, the corporation may have to pay interest. See section 1260(b) for details, including how to figure the interest. Include the interest as an additional tax on Form 1120, Schedule J, line 10 (or the applicable line for other income tax returns). Write "Section 1260(b) interest" and the amount of the interest to the left of Schedule J, line 10.

Rollover of publicly traded securities gain into specialized small business investment companies (SSBICs). If the corporation sold publicly traded securities, it may elect under section 1044(a) to postpone all or part of the gain on that sale if it bought common stock or a partnership interest in an SSBIC during the 60-day period that began on the date of the sale. An SSBIC is any partnership or corporation licensed by the Small Business Administration under section 301(d) of the Small Business Investment Act of 1958. The corporation must recognize gain to the extent the sale proceeds exceed the cost (not taken into account previously) of its SSBIC stock or partnership interest purchased during the 60-day period that began on the date of the sale. The gain a corporation may postpone each tax year is limited to the smaller of (a) $1 million, reduced by the gain previously excluded under section 1044(a) or (b) $250,000. Reduce the basis of the SSBIC stock or partnership interest by any postponed gain.

To make the election, report the entire gain realized on the sale on line 1 or 6, whichever applies, in column (f). Directly below the line on which the gain is reported, enter in column (a), "SSBIC Rollover." Enter the amount of the postponed gain (in parentheses) in column (f). Also attach a schedule showing (a) how the postponed gain was figured, (b) the name of the SSBIC stock in which the common stock or partnership interest was purchased, (c) the date of that purchase, and (d) the new basis in that SSBIC stock or partnership interest. For more details, see section 1044 and Regulations section 1.1044(a)-1.

The corporation must make the election no later than the due date (including extensions) for filing its tax return for the year in which it sold the securities or partnership interest. If the original return was filed on time without making the election, the corporation may make the election on an amended return filed no later than 6 months after the original due date (excluding extensions). Write "Filed pursuant to section 301.9100-2" at the top of the amended return.

Gain on disposition of market discount bonds. See section 1276 for rules on the disposition of market discount bonds.

Gains on certain insurance property. Form 1120-L filers with gains on property held on December 31, 1958, and certain substituted property acquired after 1958, should see section 818(c).

Gains and losses from passive activities. A closely held or personal service corporation that has a gain or loss that relates to a passive activity (section 469) may be required to complete Form 8810, Corporate Passive Activity Loss and Credit Limitation, before completing Schedule D. A Schedule D loss may be limited under the passive activity rules. See Form 8810.

Gains and losses of foreign corporations from the disposition of investment in U.S. real property. Foreign corporations must report gains and losses from the disposition of U.S. real property interests. See section 897.

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. An exception to this rule applies for liquidations of certain subsidiaries. See sections 336 and 337 for more information and other exceptions to the general rules.

Gain or loss on certain asset transfers to a tax-exempt entity. A taxable corporation that transfers all or substantially all of its assets to a tax-exempt entity or converts from a taxable corporation to a tax-exempt entity in a transaction other than a liquidation generally must recognize gain or loss as if it had sold the assets transferred at their FMV. For details, see Regulations section 1.337(d)-4.

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 to the extent that the property used to close the short sale is considered a capital asset in the hands of the taxpayer.

Gain or loss on certain short-term federal, state, and municipal obligations. These obligations are treated as capital assets in determining gain or loss. On any gain realized, a portion is treated as ordinary income and the balance as a short-term capital gain. See section 1271.

At-risk limitations (section 465). If the corporation sold or exchanged a capital asset used in an activity to which the at-risk rules apply, combine the gain or loss on the sale or exchange with the profit or loss from the activity. If the result is a net loss, complete Form 6198, At-Risk Limitations. Report any gain from the capital asset on Schedule D and on Form 6198.

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. The corporation cannot 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. 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. See section 1091.

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 securities held by a bank.

Losses limited after an ownership change or aquisition. If the corporation has undergone an "ownership change" as defined in section 382(g), section 383 may limit the amount of capital gains that may be offset by prechange capital losses. Also, if a corporation acquires control of another corporation (or acquires its assets in a reorganization), section 384 may limit the amount of recognized built-in capital gains that may be offset by preaquisition capital losses.

Loss from the sale or exchange of capital assets of an insurance company taxable under section 831. Capital losses of a casualty insurance company are deductible to the extent that the assets were sold to meet abnormal insurance losses or to provide for the payment of dividend and similar distributions to policyholders. See section 834(c)(6).

Gains and losses from partnerships. Report the corporation's share of capital gains and losses from investments in partnerships. Report a net short-term capital gain (loss) in Part I. On line 1, column (a), write "From Schedule K-1 (Form 1065)." Enter the amount of the gain (loss) in column (f). Report net long-term capital gains (losses) in Part II. On line 6, column (a), enter "From Schedule K-1 (Form 1065)." Enter the amount of the gain (loss) in column (f).

Specific Instructions

Parts I and II

In Part I, report the sale, exchange, or distribution of capital assets held 1 year or less. In Part II, report the sale, exchange, or distribution of capital assets held more than 1 year. Use the trade dates for the dates of acquisition and sale of stocks and bonds traded on an exchange or over-the-counter market.

Column (b). Date acquired. A RIC or REIT's acquisition date for an asset it held on January 1, 2001, for which it made an election to recognize any gain under section 311 of the Taxpayer Relief Act of 1997, is the date of the deemed sale and reacquisition.

Column (d). Sales price. Enter either the gross sales price or the net sales price. If the net sales price is entered, do not increase the cost or other basis in column (e) by any expenses reflected in the net sales price.

Column (e). Cost or other basis. In general, the basis of property is its cost. See section 1012 and the related regulations. Special rules for determining basis are provided in sections in subchapters C, K, O, and P of the Code. These rules may apply to the:

- Receipt of certain distributions with respect to stock (section 301 or 1059),
- Liquidation of another corporation (section 334),
- Transfer to another corporation (section 358),
- Transfer from a shareholder or reorganization (section 362),
- Bequest (section 1014),
- Contribution or gift (section 1015),
- Tax-free exchange (section 1031),
- Involuntary conversion (section 1033),
- Certain asset acquisitions (section 1060), or
- Wash sale of stock (section 1091).

Attach an explanation if the corporation uses a basis other than actual cost of the property.

Before making an entry in column (e), increase the cost or other basis by any expense of sale, such as broker's fees, commissions, state and local transfer taxes, and option premiums, unless the net sales price was reported in column (d).

A RIC or REIT's basis in an asset it held on January 1, 2001, for which it made an election to recognize any gain under section 311 of the Taxpayer Relief Act of 1997, is the asset's closing market price or FMV, whichever applies, on the date of the deemed sale and reacquisition, whether the deemed sale resulted in a gain or unallowed loss.

If the corporation is allowed a charitable contribution deduction because it sold property in a bargain sale to a charitable organization, figure the adjusted basis for determining gain from the sale by dividing the amount realized by the FMV and multiplying that result by the adjusted basis. No loss is allowed in a bargain sale to a charity.

See section 852(f) for the treatment of certain load charges incurred in acquiring stock in a RIC with a reinvestment right.

Line 10. Enter the total capital gain distributions paid by a RIC or REIT during the year, regardless of how long the corporation owned stock in the RIC or REIT.

Also enter any amount received from a RIC or REIT that qualifies as a distribution in complete liquidation under section 332(b) and is designated by the RIC or REIT as a capital gain distribution. See section 332(c).