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Almost every form and publication also has its own easily accessible information page on IRS.gov. For example, the Form 1040 page is at IRS.gov/form1040; the Form W-2 page is at IRS.gov/w2; the Publication 17 page is at IRS.gov/pub17; the Form W-4 page is at IRS.gov/w4; the Form 8863 page is at IRS.gov/form8863; and the Schedule A (Form 1040) page is at IRS.gov/schedulea. If typing in the links above instead of clicking on them: type the link into the address bar of your browser, not in a Search box; the text after the slash must be lowercase; and your browser may require the link to begin with “www.”. Note that these are shortcut links that will automatically go to the actual link for the page.

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Department of the Treasury
Internal Revenue Service

2016 Instructions for Schedule D

Capital Gains and Losses

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These instructions explain how to complete Schedule D (Form 1040). Complete Form 8949 before you complete line 1b, 2, 3, 8b, 9, or 10 of Schedule D.

Use Schedule D:

- To figure the overall gain or loss from transactions reported on Form 8949,
- To report certain transactions you don't have to report on Form 8949,
- To report a gain from Form 2439 or 6252 or Part I of Form 4797,
- To report a gain or loss from Form 4684, 6781, or 8824,
- To report a gain or loss from a partnership, S corporation, estate or trust,
- To report capital gain distributions not reported directly on Form 1040, line 13 (or effectively connected capital gain distributions not reported directly on Form 1040NR, line 14), and
- To report a capital loss carryover from 2015 to 2016.

Additional information. See Pub. 544 and Pub. 550 for more details.

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

Future Developments

For the latest information about developments related to Schedule D and its instructions, such as legislation enacted after they were published, go to *www.irs.gov/scheduled*.

What's New

Basis of property acquired from decedent. Section 2004 of Public Law 114-41 has two major requirements.

1. An executor of an estate (or other person) who files an estate tax return after July 31, 2015, must provide Form 8971 with attached Schedules A to the IRS and a copy of the beneficiary's Schedule A to that beneficiary who receives or is to receive property from the estate. The statement must show the final estate tax value of the property. An executor (or other person) who files an estate tax return only to make an election regarding the generation-skipping transfer tax or portability of the deceased spousal unused exclusion (DSUE) may not be required to provide statements.

2. If the property increases the estate tax liability, you must use a basis consistent with the estate tax value of the property to determine your initial basis in that property. Calculate a basis consistent with the final estate tax value by starting with the reported value and then making any allowed adjustments.

Notice 2016-27, 2016-15 I.R.B. 576 available at *www.irs.gov/irb/2016-15_IRB/ar09.html*, delayed the due date for providing the Schedule A in (1) above until June 30, 2016. For more information, see the *Instructions for Form 8971 and Schedule A*.

General Instructions

Other Forms You 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. 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*, later, for more information about when Form 8949 is needed and when it isn't.

Use Form 4797 to report the following.

1. The sale or exchange of:

a. Real property used in your trade or business;

b. Depreciable and amortizable tangible property used in your trade or business (but see *Disposition of Depreciable Property Not Used in Trade or Business* in the Form 4797 instructions);

c. Oil, gas, geothermal, or other mineral property; and

d. Section 126 property.

2. The involuntary conversion (other than from casualty or theft) of property used in a trade or business and capital assets held more than 1 year for business or profit. But see *Disposition of Depreciable Property Not Used in Trade or Business* in the Form 4797 instructions.

3. The disposition of noncapital assets other than inventory or property held primarily for sale to customers in the ordinary course of your trade or business.

4. Ordinary loss on the sale, exchange, or worthlessness of small business investment company (section 1242) stock.

5. Ordinary loss on the sale, exchange, or worthlessness of small business (section 1244) stock.

6. Ordinary gain or loss on securities or commodities held in connection with your trading business, if you previously made a mark-to-market election. See *Traders in Securities*, later.

Use Form 4684 to report involuntary conversions of property due to casualty or theft.

Use Form 6781 to report gains and losses from section 1256 contracts and straddles.

Use Form 8824 to report like-kind exchanges. A like-kind exchange occurs when you exchange business or investment property for property of a like kind.

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Use Form 8960 to figure any net investment income tax relating to gains and losses reported on Schedule D, including gains and losses from a securities trading activity.

Capital Asset

Most property you own and use for personal purposes or investment is a capital asset. For example, your house, furniture, car, stocks, and bonds are capital assets. A capital asset is any property owned by you except the following.

1. Stock in trade or other property included in inventory or held mainly for sale to customers. But see the *Tip* about certain musical compositions or copyrights, later.

2. Accounts or notes receivable:

a. For services rendered in the ordinary course of your trade or business,

b. For services rendered as an employee, or

c. From the sale of stock in trade or other property included in inventory or held mainly for sale to customers.

3. Depreciable property used in your trade or business, even if it is fully depreciated.

4. Real estate used in your trade or business.

5. A copyright; a literary, musical, or artistic composition; a letter or memorandum; or similar property that is:

a. Created by your personal efforts,

b. Prepared or produced for you (in the case of a letter, memorandum, or similar property), or

c. Received under circumstances (such as by gift) that entitle you to the basis of the person who created the property or for whom the property was prepared or produced.

But see the *Tip* about certain musical compositions or copyrights below.

6. A U.S. Government publication, including the Congressional Record, that you received from the Government for less than the normal sales price, or that you received under circumstances that entitle you 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. See section 1221(a)(6).

8. Certain hedging transactions entered into in the normal course of your trade or business. See section 1221(a)(7).

9. Supplies regularly used in your trade or business.

TIP *You can elect to treat as capital assets certain musical compositions or copyrights you sold or exchanged. See Pub. 550 for details.*

Basis and Recordkeeping

Basis is the amount of your investment in property for tax purposes. The basis of property you buy is usually its cost. There are special rules for certain kinds of property, such as inherited property. You need to know your basis to figure any gain or loss on the sale or other disposition of the property. You must keep accurate records that show the basis and, if applicable, adjusted basis of your property. Your records should show the purchase price, including commissions; increases to basis, such as the cost of improvements; and decreases to basis, such as depreciation, nondividend distributions on stock, and stock splits.

If you received a Schedule A (Form 8971) statement from an executor of an estate or other person required to file an estate tax return after July 2015, you may be required to report a basis consistent with the estate tax value of the property.

For more information on consistent basis reporting and basis generally, see *Column (e)–Cost or Other Basis* in the instructions for Form 8949, and the following publications.

- Pub. 551, Basis of Assets.
- Pub. 550, Investment Income and Expenses (Including Capital Gains and Losses).

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 1 year or less. The holding period for long-term capital gains and losses is more than 1 year.

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

Capital Gain Distributions

These distributions are paid by a mutual fund (or other regulated investment company) or real estate investment trust from its net realized long-term capital gains. Distributions of net realized short-term capital gains aren't treated as capital gains. Instead, they are included on Form 1099-DIV as ordinary dividends.

Enter on Schedule D, line 13, the total capital gain distributions paid to you during the year, regardless of how long you held your investment. This amount is shown in box 2a of Form 1099-DIV.

If there is an amount in box 2b, include that amount on line 11 of the *Unrecaptured Section 1250 Gain Worksheet* in these instructions if you complete line 19 of Schedule D.

If there is an amount in box 2c, see *Exclusion of Gain on Qualified Small Business (QSB) Stock*, later.

If there is an amount in box 2d, include that amount on line 4 of the *28% Rate Gain Worksheet* in these instructions if you complete line 18 of Schedule D.

If you received capital gain distributions as a nominee (that is, they were paid to you but actually belong to someone else), report on Schedule D, line 13, only the amount that belongs to you. Attach a statement showing the full amount you received and the amount you received as a nominee. See the Instructions for Schedule B to learn about the requirement for you to file Forms 1099-DIV and 1096.

Sale of Your Home

You may not need to report the sale or exchange of your main home. If you must report it, complete Form 8949 before Schedule D.

Report the sale or exchange of your main home on Form 8949 if:

- You can't exclude all of your gain from income, or
- You received a Form 1099-S for the sale or exchange.

Any gain you can't exclude is taxable. Generally, if you meet the following two

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tests, you can exclude up to $250,000 of gain. If both you and your spouse meet these tests and you file a joint return, you can exclude up to $500,000 of gain (but only one spouse needs to meet the ownership requirement in *Test 1*).

Test 1. During the 5-year period ending on the date you sold or exchanged your home, you owned it for 2 years or more (the ownership requirement) and lived in it as your main home for 2 years or more (the use requirement).

Test 2. You haven't excluded gain on the sale or exchange of another main home during the 2-year period ending on the date of the sale or exchange of your home.

Reduced exclusion. Even if you don't meet one or both of the above two tests, you still can claim an exclusion if you sold or exchanged the home because of a change in place of employment, health, or certain unforeseen circumstances. In this case, the maximum amount of gain you can exclude is reduced. For more information, see Pub. 523.

Sale of home by surviving spouse. If your spouse died before the sale or exchange, you can still exclude up to $500,000 of gain if:

- The sale or exchange is no later than 2 years after your spouse's death,
- Just before your spouse's death, both spouses met the use requirement of *Test 1*, at least one spouse met the ownership requirement of *Test 1*, and both spouses met *Test 2*, and
- You didn't remarry before the sale or exchange.

Exceptions to Test 1. You can choose to have the 5-year test period for ownership and use in *Test 1* suspended during any period you or your spouse serve outside the United States as a Peace Corps volunteer or serve on qualified official extended duty as a member of the uniformed services or Foreign Service of the United States, as an employee of the intelligence community, or outside the United States as an employee of the Peace Corps. This means you may be able to meet *Test 1* even if, because of your service, you didn't actually use the home as your main home for at least the required 2 years during the 5-year period ending on the date of sale. The 5-year period can't be extended for more than 10 years.

Example. Tamara buys a house in Virginia in 2004 that she uses as her main home for 3 years. For 8 years, from 2007 through 2015, Tamara serves on qualified official extended duty as a member of the uniformed services in Kuwait. In 2016 Tamara sells the house. Tamara didn't use the house as her main home for 2 of the 5 years before the sale. To meet Test 1, Tamara elects to suspend the 5-year test period during her 8-year period of uniformed service in Kuwait. Because that 8-year period won't be counted in determining if she used the house as her main home for 2 of the 5 years before the sale, she meets the ownership and use requirements of Test 1.

Qualified extended duty. You're on qualified extended duty if:

- You're called or ordered to active duty for an indefinite period or for a period of more than 90 days, and
- You're serving at a duty station at least 50 miles from your main home, or you're living in Government quarters under Government orders.

Sale of home acquired in a like-kind exchange. You can't exclude any gain if:

- You acquired your home in a like-kind exchange in which all or part of the gain wasn't recognized, and
- You sold or exchanged the home during the 5-year period beginning on the date you acquired it.

How to report the sale of your main home. If you have to report the sale or exchange, report it on Form 8949. If the gain or loss is short term, report it in Part I of Form 8949 with box C checked. If the gain or loss is long term, report it in Part II of Form 8949 with box F checked.

If you had a gain and can exclude part or all of it, enter "H" in column (f) of Form 8949. Enter the exclusion as a negative number (in parentheses) in column (g) of Form 8949. See the instructions for Form 8949, columns (f), (g), and (h). Complete all columns.

If you had a loss but have to report the sale or exchange because you got a Form 1099-S, see *Nondeductible Losses*, later, for instructions about how to report it.

More information. See Pub. 523 for additional details, including how to figure and report any taxable gain if:

- You (or your spouse if married) used any part of the home for business or rental purposes after May 6, 1997, or
- There was a period of time after 2008 when the home wasn't your main home.

Partnership Interests

A sale or other disposition of an interest in a partnership may result in ordinary income, collectibles gain (28% rate gain), or unrecaptured section 1250 gain. For details on 28% rate gain, see the instructions for line 18. For details on unrecaptured section 1250 gain, see the instructions for line 19.

Capital Assets Held for Personal Use

Generally, gain from the sale or exchange of a capital asset held for personal use is a capital gain. Report it on Form 8949 with box C checked (if the transaction is short term) or box F checked (if the transaction is long term). However, if you converted depreciable property to personal use, all or part of the gain on the sale or exchange of that property may have to be recaptured as ordinary income. Use Part III of Form 4797 to figure the amount of ordinary income recapture. The recapture amount is included on line 31 (and line 13) of Form 4797. Don't enter any gain from this property on line 32 of Form 4797. If you aren't completing Part III for any other properties, enter "N/A" on line 32. If the total gain is more than the recapture amount, enter "From Form 4797" in column (a) of Part I of Form 8949 (if the transaction is short term) or Part II of Form 8949 (if the transaction is long term), and skip columns (b) and (c). In column (d) of Form 8949, enter the excess of the total gain over the recapture amount. Leave columns (e) through (g) blank. Complete column (h). Be sure to check box C at the top of Part I or box F at the top of Part II of this Form 8949 (depending on how long you held the asset).

Loss from the sale or exchange of a capital asset held for personal use isn't deductible. But if you had a loss from the sale or exchange of real estate held for personal use for which you received

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a Form 1099-S, you must report the transaction on Form 8949 even though the loss isn't deductible.

Example. You have a loss on the sale of a vacation home that isn't your main home and you received a Form 1099-S for the transaction. Report the transaction in Part I or Part II of Form 8949, depending on how long you owned the home. Complete all columns. Because the loss isn't deductible, enter "L" in column (f). Enter the difference between column (d) and column (e) as a positive amount in column (g). Then complete column (h). (For example, if you entered $5,000 in column (d) and $6,000 in column (e), enter $1,000 in column (g). Then enter -0- ($5,000 – $6,000 + $1,000) in column (h). Be sure to check box C at the top of Part I or box F at the top of Part II of this Form 8949 (depending on how long you owned the home).)

Capital Losses

You can deduct capital losses up to the amount of your capital gains plus $3,000 ($1,500 if married filing separately). You may be able to use capital losses that exceed this limit in future years. For details, see the instructions for line 21. Be sure to report all of your capital gains and losses even if you can't use all of your losses in 2016.

Nondeductible Losses

Don't deduct a loss from a sale or exchange between certain related parties. This includes a direct or indirect sale or exchange of property between any of the following.

- Members of a family.
- A corporation and an individual who directly (or indirectly) owns 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 of a trust and a fiduciary (or beneficiary) of another trust if both trusts were 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 (that is, a bequest of a sum of money).
- An individual and a tax-exempt organization controlled directly (or indirectly) by the individual or the individual's family.

See Pub. 544 for more details on sales and exchanges between related parties.

Report a transaction that results in a nondeductible loss in Part I or Part II of Form 8949 (depending on how long you held the property). Unless you received a Form 1099-B for the sale or exchange, check box C at the top of Part I or box F at the top of Part II of this Form 8949 (depending on how long you owned the property). Complete all columns. Because the loss isn't deductible, enter "L" in column (f). Enter the amount of the nondeductible loss as a positive number in column (g). Complete column (h). See the instructions for Form 8949, columns (f), (g), and (h).

Example 1. You sold land you held as an investment for 5 years to your brother for $10,000. Your basis was $15,000. On Part II of Form 8949, check box F at the top. Enter $10,000 on Form 8949, Part II, column (d). Enter $15,000 in column (e). Because the loss isn't deductible, enter "L" in column (f) and $5,000 (the difference between $10,000 and $15,000) in column (g). In column (h), enter -0- ($10,000 − $15,000 + $5,000). If this is your only transaction on this Form 8949, enter $10,000 on Schedule D, line 10, column (d). Enter $15,000 in column (e) and $5,000 in column (g). In column (h), enter -0- ($10,000 − $15,000 + $5,000).

Example 2. You received a Form 1099-B showing proceeds (sales price) of $1,000 and basis of $5,000. Box 7 on Form 1099-B is checked, indicating that your loss of $4,000 ($1,000 – $5,000) isn't allowed. On the top of Form 8949, check box A or box B in Part I or box D or box E in Part II (whichever applies). Enter $1,000 in column (d) and $5,000 in column (e). Because the loss isn't deductible, enter "L" in column (f) and $4,000 (the difference between $1,000 and $5,000) in column (g). In column (h), enter -0- ($1,000 – $5,000 + $4,000).

At-risk rules. If you disposed of (a) an asset used in an activity to which the at-risk rules apply or (b) any part of your interest in an activity to which the at-risk rules apply, and you have amounts in the activity for which you aren't at risk, see the Instructions for Form 6198.

Passive activity rules. If the loss is allowable under the at-risk rules, it then may be subject to the passive activity rules. See Form 8582 and its instructions for details on reporting capital gains and losses from a passive activity.

Items for Special Treatment

- Transactions by a securities dealer. See section 475 and Rev. Rul. 97-39, which begins on page 4 of Internal Revenue Bulletin 1997-39 at www.irs.gov/pub/irs-irbs/irb97-39.pdf.
- Bonds and other debt instruments. See Pub. 550.
- Certain real estate subdivided for sale that may be considered a capital asset. See section 1237.
- Gain on the sale of depreciable property to a more than 50%-owned entity or to a trust of which you're a beneficiary. See Pub. 544.
- Gain on the disposition of stock in domestic international sales corporations. See section 995(c).
- Gain on the sale or exchange of stock in certain foreign corporations. See section 1248.
- Transfer of property to a partnership that would be treated as an investment company if it were incorporated. See Pub. 541.
- Sales of stock received under a qualified public utility dividend reinvestment plan. See Pub. 550.
- Transfer of appreciated property to a political organization. See section 84.
- Transfer of property by a U.S. person to a foreign estate or trust. See section 684.
- If you give up your U.S. citizenship, you may be treated as having sold all your property for its fair market value on the day before you gave up your citizenship. This also applies to long-term U.S. residents who cease to be lawful permanent residents. For details, exceptions, and rules for reporting these deemed sales, see Pub. 519 and Form 8854.
- In general, no gain or loss is recognized on the transfer of property from an individual to a spouse or a former spouse if the transfer is incident to a divorce. See Pub. 504.

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• Amounts received on the retirement of a debt instrument generally are treated as received in exchange for the debt instrument. See Pub. 550.

• 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 is reported as ordinary income on Form 4797.

• If qualified dividends that you reported on Form 1040, line 9b, or Form 1040NR, line 10b, include extraordinary dividends, any loss on the sale or exchange of the stock is a long-term capital loss to the extent of the extraordinary dividends. An extraordinary dividend is a dividend that equals or exceeds 10% (5% in the case of preferred stock) of your basis in the stock.

• Amounts received by shareholders in corporate liquidations. See Pub. 550.

• Cash received in lieu of fractional shares of stock as a result of a stock split or stock dividend. See Pub. 550.

• Load charges to acquire stock in a regulated investment company (including a mutual fund), which may not be taken into account in determining gain or loss on certain dispositions of the stock if reinvestment rights were exercised. See Pub. 550.

• The sale or exchange of S corporation stock or an interest in a partnership or trust held for more than 1 year, which may result in collectibles gain (28% rate gain). See the instructions for line 18.

• Gain or loss on the disposition of securities futures contracts. See Pub. 550.

• Gain on the constructive sale of certain appreciated financial positions. See Pub. 550.

• Certain constructive ownership transactions. Gain in excess of the gain you would have recognized if you 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, you 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 1040, line 62. Check box c and in the space next to that box, enter "Section 1260(b) interest" and the amount of the interest. If you're filing Form 1040NR, include the interest as an additional tax on line 60. Check box b and, in the space next to that box, enter "Section 1260(b) interest" and the amount of the interest. This interest isn't deductible.

• Gain or loss from the disposition of stock or other securities in an investment club. See Pub. 550.

• Certain virtual currencies, such as Bitcoin. See Notice 2014-21, 2014-16 I.R.B. 938, available at www.irs.gov/irb/2014-16_IRB/ar12.html.

Market Discount Bonds

In general, a capital gain from 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.

Contingent Payment Debt Instruments

Any gain recognized on the sale, exchange, or retirement of a taxable contingent payment debt instrument subject to the noncontingent bond method is treated as interest income rather than as capital gain, even if you hold the debt instrument as a capital asset. If you sell a taxable contingent payment debt instrument subject to the noncontingent bond method at a loss, your loss is an ordinary loss to the extent of your prior original issue discount (OID) inclusions on the debt instrument. If the debt instrument is a capital asset, treat any loss that is more than your prior OID inclusions as a capital loss. See Regulations section 1.1275-4(b) for exceptions to these rules.

If you received a Form 1099-B (or substitute statement) reporting the sale of a taxable contingent payment debt instrument subject to the noncontingent bond method and the Ordinary box in box 2 is checked, an adjustment may be required. Report the transaction on Form 8949 and complete the form's Worksheet for Contingent Payment Debt Instrument Adjustment in Column (g) to figure the adjustment to enter in column (g) of Form 8949.

See Pub. 550 or Pub. 1212 for more details on any special rules or adjustments that might apply.

Wash Sales

A wash sale occurs when you sell or otherwise dispose of stock or securities (including a contract or option to acquire or sell stock or securities) at a loss and, within 30 days before or after the sale or disposition, you:

1. Buy substantially identical stock or securities,

2. Acquire substantially identical stock or securities in a fully taxable trade,

3. Enter into a contract or option to acquire substantially identical stock or securities, or

4. Acquire substantially identical stock or securities for your individual retirement arrangement (IRA) or Roth IRA.

You can't deduct losses from wash sales unless the loss was incurred in the ordinary course of your business as a dealer in stock or securities. The basis of the substantially identical property (or contract or option to acquire such property) is its cost increased by the disallowed loss (except in the case of (4) above).

These wash sale rules don't apply to a redemption of shares in a floating-NAV (net asset value) money market fund.

If you received a Form 1099-B (or substitute statement), box 1g of that form generally will show whether there was any nondeductible wash sale loss and its amount if:

• The stock or securities sold were covered securities (defined in the Instructions for Form 8949, column (e)), and

• The substantially identical stock or securities you bought had the same CUSIP number as the stock or securities you sold and were bought in the same account as the stock or securities you sold. (CUSIP numbers are security identification numbers.)

However, you can't deduct a loss from a wash sale even if it isn't reported on Form 1099-B (or substitute statement). For more details on wash sales, see Pub. 550.

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Report a wash sale transaction in Part I or Part II (depending on how long you owned the stock or securities) of Form 8949 with the appropriate box checked. Complete all columns. Enter "W" in column (f). Enter as a positive number in column (g) the amount of the loss not allowed. See the instructions for Form 8949, columns (f), (g), and (h).

Traders in Securities

You're a trader in securities if you're engaged in the business of buying and selling securities for your own account. To be engaged in business as a trader in securities, all of the following statements must be true.

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

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

- Typical holding periods for securities bought and sold.
- The frequency and dollar amount of your trades during the year.
- The extent to which you pursue the activity to produce income for a livelihood.
- The amount of time you devote to the activity.

You're considered an investor, and not a trader, if your activity doesn't meet the above definition of a business. It doesn't matter whether you call yourself a trader or a "day trader."

Like an investor, a trader generally must 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 in the instructions to Form 8949 applies. However, if a trader previously made the mark-to-market election (explained next), each transaction is reported in Part II of Form 4797 instead of on Form 8949. Regardless of whether a trader reports his or her gains and losses on Form 8949 or Form 4797, the gain or loss from the disposition of securities isn't taken into account when figuring net earnings from self-employment on Schedule SE. See the Instructions for Schedule SE for an exception that applies to section 1256 contracts.

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 or disposing of securities) from a trading business on Schedule C (instead of Schedule A).

A trader also may hold securities for investment. The rules for investors generally will apply to those securities. Allocate interest and other expenses between your trading business and your investment securities.

Mark-To-Market Election for Traders

A trader may make an election under section 475(f) to report all gains and losses from securities held in connection with a trading business as ordinary income (or loss), including those from securities held at the end of the year. Securities held at the end of the year are "marked-to-market" by treating them as if they were sold (and reacquired) for fair market value on the last business day of the year. Generally, the election must be made by the due date (not including extensions) of the tax return for the year prior to the year for which the election becomes effective. To be effective for 2016, the election must have been made by the due date of your return (not counting extensions)—April 18, 2016, for most people. The due date for 2016 was April 18, instead of April 15, because of the Emancipation Day holiday in the District of Columbia—even if you didn't live in the District of Columbia. If you lived in Maine or Massachusetts, the election must have been made by April 19, 2016, because of the Patriot's Day holiday in those states.

Starting with the year the election becomes effective, a trader reports all gains and losses from securities held in connection with the trading business, including securities held at the end of the year, in Part II of Form 4797. If you previously made the election, see the Instructions for Form 4797. For details on making the mark-to-market election for 2017, see Pub. 550 or Rev. Proc. 99-17, 1999-1 C.B. 503. You can find Rev. Proc. 99-17 starting on the bottom of page 52 of Internal Revenue Bulletin 1999-7 at www.irs.gov/pub/irs-irbs/irb99-07.pdf.

If you hold securities for investment, you must identify them as such in your records on the day you acquired them (for example, by holding the securities in a separate brokerage account). Securities that you hold for investment aren't marked-to-market.

Short Sales

A short sale is a contract to sell property you borrowed for delivery to a buyer. At a later date, you either buy substantially identical property and deliver it to the lender or deliver property that you held but didn't want to transfer at the time of the sale.

Example. You think the value of XYZ stock will drop. You borrow 10 shares from your broker and sell them for $100. This is a short sale. You later buy 10 shares for $80 and deliver them to your broker to close the short sale. Your gain is $20 ($100 − $80).

Holding period. Usually, your holding period is the amount of time you actually held the property eventually delivered to the broker or lender to close the short sale. However, your gain when closing a short sale is short term if you (a) held substantially identical property for 1 year or less on the date of the short sale, or (b) acquired property substantially identical to the property sold short after the short sale but on or before the date you close the short sale. If you held substantially identical property for more than 1 year on the date of a short sale, any loss realized on the short sale is a long-term capital loss, even if the property used to close the short sale was held 1 year or less.

Reporting a short sale. Report any short sale on Form 8949 in the year it closes.

If a short sale closed in 2016 but you didn't get a 2016 Form 1099-B (or substitute statement) for it because you entered into it before 2011, report it on Form 8949 in Part I with box C checked or Part II with box F checked (whichever applies). In column (a), enter (for example) "100 sh. XYZ Co.–2010 short sale closed." Fill in the other columns

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according to their instructions. Report the short sale the same way if you received a 2016 Form 1099-B (or substitute statement) that doesn't show proceeds (sales price).

Gain or Loss From Options

Report on Form 8949 gain or loss from the closing or expiration of an option that isn't a section 1256 contract but is a capital asset in your hands. If an option you purchased expired, enter the expiration date in column (c) and enter "EXPIRED" in column (d). If an option that was granted (written) expired, enter the expiration date in column (b) and enter "EXPIRED" in column (e). Fill in the other columns according to their instructions. See Pub. 550 for details.

If a call option you sold after 2013 was exercised, the option premium you received will be reflected in the proceeds shown in box 1d of the Form 1099-B (or substitute statement) you received. If you sold the call option before 2014, the option premium you received may not be reflected on Form 1099-B. If it isn't, enter the premium as a positive number in column (g) of Form 8949. Enter "E" in column (f).

Example. For $10 in 2013, you sold Joe an option to buy one share of XYZ stock for $80. Joe later exercised the option. The Form 1099-B you get shows the proceeds to be $80. Enter $80 in column (d) of Form 8949. Enter "E" in column (f) and $10 in column (g). Complete the other columns according to the instructions.

NAV Method for Money Market Funds

If you have a capital gain or loss determined under the net asset value (NAV) method with respect to shares in a NAV money market fund, report the capital gain or loss on Form 8949, Part I, with box C 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.

Undistributed Capital Gains

Include on Schedule D, line 11, the amount from box 1a of Form 2439. This represents your share of the undistributed long-term capital gains of the regulated investment company (including a mutual fund) or real estate investment trust.

If there is an amount in box 1b, include that amount on line 11 of the *Unrecaptured Section 1250 Gain Worksheet* if you complete line 19 of Schedule D.

If there is an amount in box 1c, see *Exclusion of Gain on Qualified Small Business (QSB) Stock*, later.

If there is an amount in box 1d, include that amount on line 4 of the *28% Rate Gain Worksheet* if you complete line 18 of Schedule D.

Include on Form 1040, line 73, or Form 1040NR, line 69, the tax paid as shown in box 2 of Form 2439. Also check the box for Form 2439. Add to the basis of your stock the excess of the amount included in income over the amount of the credit for the tax paid. See Pub. 550 for details.

Installment Sales

If you sold property (other than publicly traded stocks or securities) at a gain and you will receive a payment in a tax year after the year of sale, you generally must report the sale on the installment method unless you elect not to. Use Form 6252 to report the sale on the installment method. Also use Form 6252 to report any payment received in 2016 from a sale made in an earlier year that you reported on the installment method.

To elect out of the installment method, report the full amount of the gain on Form 8949 on a timely filed return (including extensions) for the year of the sale. If your original return was filed on time, you can make the election on an amended return filed no later than 6 months after the due date of your return (excluding extensions). Write "Filed pursuant to section 301.9100-2" at the top of the amended return.

Demutualization of Life Insurance Companies

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

If the demutualization transaction qualifies as a tax-free reorganization, no gain or loss is recognized on the exchange of your equity interest in the mutual company for stock. The company can advise you if the transaction is a tax-free reorganization. Your holding period for the new stock includes the period you held an equity interest in the mutual company. If you received cash in exchange for your equity interest, you must recognize any capital gain. If you held the equity interest for more than 1 year, report the gain as a long-term capital gain in Part II of Form 8949. If you held the equity interest for 1 year or less, report the gain as a short-term capital gain in Part I of Form 8949. Be sure the appropriate box is checked at the top of Form 8949.

If the demutualization transaction doesn't qualify as a tax-free reorganization, you must recognize a capital gain or loss. If you held the equity interest for more than 1 year, report the gain or loss as a long-term capital gain or loss in Part II of Form 8949. If you held the equity interest for 1 year or less, report the gain or loss as a short-term capital gain or loss in Part I of Form 8949. Be sure the appropriate box is checked at the top of Form 8949. Your holding period for the new stock begins on the day after you received the stock.

Small Business (Section 1244) Stock

Report an ordinary loss from the sale, exchange, or worthlessness of small business (section 1244) stock on Form 4797. However, if the total loss is more than the maximum amount that can be treated as an ordinary loss for the year ($50,000 or, on a joint return, $100,000), also report the transaction on Form 8949 as follows.

1. In column (a), enter "Capital portion of section 1244 stock loss."
2. Complete columns (b) and (c) as you normally would.
3. In column (d), enter the entire sales price of the stock sold.
4. In column (e), enter the entire basis of the stock sold.
5. Enter "S" in column (f). See the instructions for Form 8949, columns (f), (g), and (h).

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6. In column (g), enter the loss you claimed on Form 4797 for this transaction. Enter it as a positive number.

7. Complete column (h) according to its instructions.

Report the transaction in Part I or Part II of Form 8949 (depending on how long you held the stock) with the appropriate box checked.

Example. You sold section 1244 stock for $1,000. Your basis was $60,000. You had held the stock for 3 years. You can claim $50,000 of your loss as an ordinary loss on Form 4797. To claim the rest of the loss on Form 8949, check the appropriate box at the top. Enter $1,000 on Form 8949, Part II, column (d). Enter $60,000 in column (e). Enter "S" in column (f) and $50,000 (the ordinary loss claimed on Form 4797) in column (g). In column (h), enter ($9,000) ($1,000 − $60,000 + $50,000). Put it in parentheses to show it is a negative amount.

Exclusion of Gain on Qualified Small Business (QSB) Stock

Section 1202 allows you to exclude a portion of the eligible gain on the sale or exchange of QSB stock. The section 1202 exclusion applies only to QSB stock held for more than 5 years. If you acquired the QSB stock on or before February 17, 2009, you can exclude up to 50% of the qualified gain. However, you can exclude up to 60% of the qualified gain on certain empowerment zone business stock. See *Empowerment Zone Business Stock*, later.

If you acquired the QSB stock after February 17, 2009, and before September 28, 2010, you can exclude up to 75% of the qualified gain.

If you acquired the QSB stock after September 27, 2010, you can exclude up to 100% of the qualified gain.

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

1. It must be stock in a C corporation (that is, not S corporation stock).

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

3. As of the date the stock was issued, the corporation was a domestic C corporation with total gross assets of $50 million 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.

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

5. During substantially all the time you held the stock:

a. The corporation was a C corporation,

b. At least 80% of the value of the corporation's assets were used in the active conduct of one or more qualified businesses (defined next), and

c. The corporation wasn't a foreign corporation, DISC, former DISC, regulated investment company, real estate investment trust, REMIC, FASIT, cooperative, or a corporation that has made (or that has a subsidiary that has made) a section 936 election.

TIP ***SSBIC.*** *A specialized small business investment company (SSBIC) is treated as having met test 5b.*

Definition of qualified business. A qualified business is any business that isn't one of the following.

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

Acquisition date of stock acquired after February 17, 2009. When you're determining whether your exclusion is limited to 50%, 75%, or 100% of the gain from QSB stock, your acquisition date is considered to be the first day you held the stock (determined after applying the holding period rules in section 1223).

Empowerment Zone Business Stock

You generally can exclude up to 60% of your gain from the sale or exchange of QSB stock held for more than 5 years if you meet the following additional requirements.

1. The stock you sold or exchanged was stock in a corporation that qualified as an empowerment zone business during substantially all of the time you held the stock.

2. You acquired the stock after December 21, 2000, and before February 18, 2009.

Requirement 1 will still be met if the corporation ceased to qualify after the 5-year period that began on the date you acquired the stock. However, the gain that qualifies for the 60% exclusion can't be more than the gain you would have had if you had sold the stock on the date the corporation ceased to qualify.

Stock acquired after February 17, 2009. You can exclude up to 75% of your gain if you acquired the stock after February 17, 2009, and before September 28, 2010.

You can exclude up to 100% of your gain if you acquired the stock after September 27, 2010.

More information. For more information about empowerment zone businesses, see section 1397C.

Pass-Through Entities

If you held an interest in a pass-through entity (a partnership, S corporation,

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common trust fund, or mutual fund or other regulated investment company) that sold QSB stock, to qualify for the exclusion you must have held the interest on the date the pass-through entity acquired the QSB stock and at all times thereafter until the stock was sold.

How To Report

Report the sale or exchange of the QSB stock on Form 8949, Part II, with the appropriate box checked, as you would if you weren't taking the exclusion. Then enter "Q" in column (f) and enter the amount of the excluded gain as a negative number in column (g). Put it in parentheses to show it is negative. See the instructions for Form 8949, columns (f), (g), and (h). Complete all remaining columns. If you're completing line 18 of Schedule D, enter as a positive number the amount of your allowable exclusion on line 2 of the 28% Rate Gain Worksheet; if you excluded 60% of the gain, enter ⅔ of the exclusion; if you excluded 75% of the gain, enter ⅓ of the exclusion; if you excluded 100% of the gain, don't enter an amount.

Gain from Form 1099-DIV. If you received a Form 1099-DIV with a gain in box 2c, part or all of that gain (which is also included in box 2a) may be eligible for the section 1202 exclusion. Report the total gain (box 2a) on Schedule D, line 13. In column (a) of Form 8949, Part II, enter the name of the corporation whose stock was sold. In column (f), enter "Q" and in column (g) enter the amount of the excluded gain as a negative number. See the instructions for Form 8949, columns (f), (g), and (h). If you're completing line 18 of Schedule D, enter as a positive number the amount of your allowable exclusion on line 2 of the 28% Rate Gain Worksheet; if you excluded 60% of the gain, enter ⅔ of the exclusion; if you excluded 75% of the gain, enter ⅓ of the exclusion; if you excluded 100% of the gain, don't enter an amount.

Gain from Form 2439. If you received a Form 2439 with a gain in box 1c, part or all of that gain (which is also included in box 1a) may be eligible for the section 1202 exclusion. Report the total gain (box 1a) on Schedule D, line 11. In column (a) of Form 8949, Part II, enter the name of the corporation whose stock was sold. In column (f), enter "Q" and in column (g) enter the amount of the excluded gain as a negative number. See the instructions for Form 8949, columns (f), (g), and (h). If you're completing line 18 of Schedule D, enter as a positive number the amount of your allowable exclusion on line 2 of the 28% Rate Gain Worksheet; if you excluded 60% of the gain, enter ⅔ of the exclusion; if you excluded 75% of the gain, enter ⅓ of the exclusion; if you excluded 100% of the gain, don't enter an amount.

Gain from an installment sale of QSB stock. If all payments aren't received in the year of sale, a sale of QSB stock that isn't traded on an established securities market generally is treated as an installment sale and is reported on Form 6252. Report the long-term gain from Form 6252 on Schedule D, line 11. Figure the allowable section 1202 exclusion for the year by multiplying the total amount of the exclusion by a fraction, the numerator of which is the amount of eligible gain to be recognized for the tax year and the denominator of which is the total amount of eligible gain. In column (a) of Form 8949, Part II, enter the name of the corporation whose stock was sold. In column (f), enter "Q" and in column (g) enter the amount of the allowable exclusion for the year as a negative number. See the instructions for Form 8949, columns (f), (g), and (h). If you're completing line 18 of Schedule D, enter as a positive number the amount of your allowable exclusion for the year on line 2 of the 28% Rate Gain Worksheet; if you excluded 60% of the gain, enter ⅔ of the allowable exclusion for the year; if you excluded 75% of the gain, enter ⅓ of the allowable exclusion for the year; if you excluded 100% of the gain, don't enter an amount.

Alternative minimum tax. If you qualify for the 50%, 60%, or 75% exclusion, enter 7% of your allowable exclusion for the year on line 13 of Form 6251. If you qualify for the 100% exclusion, leave line 13 of Form 6251 blank.

Rollover of Gain From QSB Stock

If you sold QSB stock (defined earlier) that you held for more than 6 months, you can elect to postpone gain if you buy other QSB stock during the 60-day period that began on the date of the sale. A pass-through entity also can make the election to postpone gain. The benefit of the postponed gain applies to your share of the entity's postponed gain if you held an interest in the entity for the entire period the entity held the QSB stock. If a pass-through entity sold QSB stock held for more than 6 months and you held an interest in the entity for the entire period the entity held the stock, you also can elect to postpone gain if you, rather than the pass-through entity, buy the replacement QSB stock within the 60-day period. If you were a partner in a partnership that sold or bought QSB stock, see box 11 of the Schedule K-1 (Form 1065) sent to you by the partnership and Regulations section 1.1045-1.

You must recognize gain to the extent the sale proceeds are more than the cost of the replacement stock. Reduce the basis of the replacement stock by any postponed gain.

You must make the election no later than the due date (including extensions) for filing your tax return for the tax year in which the QSB stock was sold. If your original return was filed on time, you can make the election on an amended return filed no later than 6 months after the due date of your return (excluding extensions). Write "Filed pursuant to section 301.9100-2" at the top of the amended return.

To make the election, report the sale in Part I or Part II (depending on how long you, or the pass-through entity, if applicable, owned the stock) of Form 8949 as you would if you weren't making the election. Then enter "R" in column (f). Enter the amount of the postponed gain as a negative number in column (g). Put it in parentheses to show it is negative. See the instructions for Form 8949, columns (f), (g), and (h). Complete all remaining columns.

Rollover of Gain From Empowerment Zone Assets

If you sold a qualified empowerment zone asset that you held for more than 1 year, you may be able to elect to postpone part or all of the gain that you would otherwise include in income. If you make the election, you generally recognize gain on the sale only to the extent, if any, that the amount realized on the sale is more than the cost of

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qualified empowerment zone assets (replacement property) you purchased during the 60-day period beginning on the date of the sale. The following rules apply.

- No portion of the cost of the replacement property may be taken into account to the extent the cost is taken into account to exclude gain on a different empowerment zone asset.
- The replacement property must qualify as an empowerment zone asset with respect to the same empowerment zone as the asset sold.
- You must reduce the basis of the replacement property by the amount of postponed gain.
- This election doesn't apply to any gain (a) treated as ordinary income or (b) attributable to real property, or an intangible asset, that isn't an integral part of an enterprise zone business.
- The District of Columbia enterprise zone isn't treated as an empowerment zone for this purpose.
- The election is irrevocable without IRS consent.

See section 1397C for the definition of empowerment zone and enterprise zone business. You can find out if your business is located within an empowerment zone by using the EZ/RC Address Locator at https://egis.hud.gov/ezrclocator/.

Qualified empowerment zone assets are:

1. Tangible property, if:

a. You acquired the property after December 21, 2000,

b. The original use of the property in the empowerment zone began with you, and

c. Substantially all of the use of the property, during substantially all of the time that you held it, was in your enterprise zone business; and

2. Stock in a domestic corporation or a capital or profits interest in a domestic partnership, if:

a. You acquired the stock or partnership interest after December 21, 2000, solely in exchange for cash, from the corporation at its original issue (directly or through an underwriter) or from the partnership;

b. The business was an enterprise zone business (or a new business being organized as an enterprise zone business) as of the time you acquired the stock or partnership interest; and

c. The business qualified as an enterprise zone business during substantially all of the time you held the stock or partnership interest.

See section 1397B for more details.

How to report. Report the sale of empowerment zone stock or an empowerment zone partnership interest on Part II of Form 8949 as you would if you weren't making the election. Then enter "R" in column (f), and enter the amount of the postponed gain as a negative number in column (g). Put it in parentheses to show it is negative. See the instructions for Form 8949, columns (f), (g), and (h). Complete all remaining columns.

Report the sale or exchange of empowerment zone business property on Form 4797. See the Form 4797 instructions for details.

Exclusion of Gain From DC Zone Assets

If you sold or exchanged a District of Columbia Enterprise Zone (DC Zone) asset that you acquired after 1997 and held for more than 5 years, you may be able to exclude the amount of qualified capital gain that you 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 that is a capital asset or property used in a trade or business. It doesn't include any of the following gains.

- 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 DC Zone business.
- Gain from a related-party transaction. See *Sales and Exchanges Between Related Persons* in chapter 2 of Pub. 544.

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

How to report. Report the sale or exchange of DC Zone business stock or a DC Zone partnership interest on Form 8949, Part II, as you would if you weren't taking the exclusion. Then enter "X" in column (f). Enter the amount of the exclusion as a negative number in column (g). Put it in parentheses to show it is negative. See the instructions for Form 8949, columns (f), (g), and (h). Complete all remaining columns.

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

Exclusion of Gain From Qualified Community Assets

If you sold or exchanged a qualified community asset that you acquired after 2001 and before 2010 and held for more than 5 years, you may be able to exclude the qualified capital gain that you 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.

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See section 1400F for more details on qualified community assets and special rules.

How to report. Report the sale or exchange of qualified community stock or a qualified community partnership interest on Form 8949, Part II, with the appropriate box checked, as you would if you weren't taking the exclusion. Then enter "X" in column (f) and enter the amount of the exclusion as a negative number in column (g). Put it in parentheses to show it is negative. See the instructions for Form 8949, columns (f), (g), and (h). Complete all remaining columns.

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

Rollover of Gain From Publicly Traded Securities

You can postpone all or part of any gain from the sale of publicly traded securities by buying common stock or a partnership interest in a specialized small business investment company during the 60-day period that began on the date of the sale. See Pub. 550. Also see the instructions for Form 8949, columns (f), (g), and (h).

Rollover of Gain From Stock Sold to ESOPs or Certain Cooperatives

You can postpone all or part of any gain from the sale of qualified securities, held for at least 3 years, to an employee stock ownership plan (ESOP) or eligible worker-owned cooperative, if you buy qualified replacement property. See Pub. 550. Also see the instructions for Form 8949, columns (f), (g), and (h).

Specific Instructions

Rounding Off to Whole Dollars

You can round off cents to whole dollars on your Schedule D. If you do round to whole dollars, you must round all amounts. To round, drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next dollar. For example, $1.39 becomes $1 and $2.50 becomes $3.

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

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Capital Loss Carryover Worksheet—Lines 6 and 14

Keep for Your Records

Use this worksheet to figure your capital loss carryovers from 2015 to 2016 if your 2015 Schedule D, line 21, is a loss and **(a)** that loss is a smaller loss than the loss on your 2015 Schedule D, line 16, **or (b)** the amount on your 2015 Form 1040, line 41 (or your 2015 Form 1040NR, line 39, if applicable) is less than zero. Otherwise, you don't have any carryovers.

If you and your spouse once filed a joint return and are filing separate returns for 2016, any capital loss carryover from the joint return can be deducted only on the return of the spouse who actually had the loss.

If you excluded canceled debt from income in 2016, see Pub. 4681.

1.	Enter the amount from your 2015 Form 1040, line 41, or your 2015 Form 1040NR, line 39. If a loss, enclose the amount in parentheses		**1.** _____
2.	Enter the loss from your 2015 Schedule D, line 21, as a positive amount		**2.** _____
3.	Combine lines 1 and 2. If zero or less, enter -0-		**3.** _____
4.	Enter the **smaller** of line 2 or line 3	**4.** _____	
	If line 7 of your 2015 Schedule D is a loss, go to line 5; otherwise, enter -0- on line 5 and go to line 9.		
5.	Enter the loss from your 2015 Schedule D, line 7, as a positive amount		**5.** _____
6.	Enter any gain from your 2015 Schedule D, line 15. If a loss, enter -0-	**6.** _____	
7.	Add lines 4 and 6		**7.** _____
8.	**Short-term capital loss carryover for 2016.** Subtract line 7 from line 5. If zero or less, enter -0-. If more than zero, also enter this amount on Schedule D, line 6		**8.** _____
	If line 15 of your 2015 Schedule D is a loss, go to line 9; otherwise, skip lines 9 through 13.		
9.	Enter the loss from your 2015 Schedule D, line 15, as a positive amount		**9.** _____
10.	Enter any gain from your 2015 Schedule D, line 7. If a loss, enter -0-	**10.** _____	
11.	Subtract line 5 from line 4. If zero or less, enter -0-	**11.** _____	
12.	Add lines 10 and 11		**12.** _____
13.	**Long-term capital loss carryover for 2016.** Subtract line 12 from line 9. If zero or less, enter -0-. If more than zero, also enter this amount on Schedule D, line 14		**13.** _____

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

You can report on line 1a (for short-term transactions) or line 8a (for long-term transactions) the aggregate totals from any transactions (except sales of collectibles) for which:

- You received a Form 1099-B (or substitute statement) that shows basis was reported to the IRS and doesn't show any adjustments in box 1f or 1g,
- The Ordinary box in box 2 isn't checked, and
- You don't need to make any adjustments to the basis or type of gain or loss reported on Form 1099-B (or substitute statement), or to your gain or loss.

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

If you choose to report these transactions on lines 1a and 8a, don't report them on Form 8949. You don't need to attach a statement to explain the entries on lines 1a and 8a and, if you *e-file* your return, you don't need to file Form 8453.

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. You received a Form 1099-B reporting the sale of stock you held for 3 years. It shows proceeds (in box 1d) of $6,000 and cost or other basis (in box 1e) of $2,000. Box 3 is checked, meaning that basis was reported to the IRS. You don't need to make any adjustments to the amounts reported on Form 1099-B or enter any codes. This was your only 2016 transaction. Instead of reporting this transaction on Form 8949, you 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 you 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. You 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 3 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. You 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 3 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 the cost or other basis in column (e) from the proceeds (sales price) in column (d). Then combine the result with 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 ($6,000 − $2,000 − $1,000) in column (h).

Line 13

See *Capital Gain Distributions*, earlier.

Line 18

If you checked "Yes" on line 17, complete the *28% Rate Gain Worksheet* in these instructions if either of the following apply for 2016.

- You reported in Part II of Form 8949 a section 1202 exclusion from the eligible gain on qualified small business stock (see *Exclusion of Gain on Qualified Small Business (QSB) Stock*, earlier).
- You reported in Part II of Form 8949 a collectibles gain or (loss). 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.

Include on the worksheet any gain (but not loss) from the sale or exchange of an interest in a partnership, S corporation, or trust held for more than 1 year and attributable to unrealized appreciation of collectibles. For details, see Regulations section 1.1(h)-1. Also, attach the statement required under Regulations section 1.1(h)-1(e).

Line 19

If you checked "Yes" on line 17, complete the *Unrecaptured Section 1250 Gain Worksheet* in these instructions if any of the following apply for 2016.

- You sold or otherwise disposed of section 1250 property (generally, real property that you depreciated) held more than 1 year.
- You received installment payments for section 1250 property held more than 1 year for which you're reporting gain on the installment method.
- You received a Schedule K-1 from an estate or trust, partnership, or S corporation that shows "unrecaptured section 1250 gain."
- You received a Form 1099-DIV or Form 2439 from a real estate investment trust or regulated investment company (including a mutual fund) that reports "unrecaptured section 1250 gain."
- You reported a long-term capital gain from the sale or exchange of an interest in a partnership that owned section 1250 property.

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Instructions for the Unrecaptured Section 1250 Gain Worksheet

Lines 1 through 3. If you had more than one property described on line 1, complete lines 1 through 3 for each property on a separate worksheet. Enter the total of the line 3 amounts for all properties on line 3 and go to line 4.

Line 4. To figure the amount to enter on line 4, follow the steps below for each installment sale of trade or business property held more than 1 year.

Step 1. Figure the smaller of (a) the depreciation allowed or allowable, or (b) the total gain for the sale. This is the smaller of line 22 or line 24 of your 2016 Form 4797 (or the comparable lines of Form 4797 for the year of sale) for the property.

Step 2. Reduce the amount figured in step 1 by any section 1250 ordinary income recapture for the sale. This is the amount from line 26g of your 2016 Form 4797 (or the comparable line of Form 4797 for the year of sale) for the property. The result is your total unrecaptured section 1250 gain that must be allocated to the installment payments received from the sale.

Step 3. Generally, the entire amount of gain from the sale of trade or business property included in each installment payment is treated as unrecaptured section 1250 gain until the total unrecaptured section 1250 gain figured in step 2 has been used in full. Figure the amount of gain treated as unrecaptured section 1250 gain for installment payments received in 2016 as the smaller of (a) the amount from line 26 or line 37 of your 2016 Form 6252, whichever applies, or (b) the amount of unrecaptured section 1250 gain remaining to be reported. This amount is generally the total unrecaptured section 1250 gain for the sale reduced by all gain reported in prior years (excluding section 1250 ordinary income recapture). However, if you chose not to treat all of the gain from payments received after May 6, 1997, and before August 24, 1999, as unrecaptured section 1250 gain, use only the amount you chose to treat as unrecaptured section 1250 gain for those payments to reduce the total unrecaptured section 1250 gain remaining to be reported for the sale. Include this amount on line 4.

Line 10. Include on line 10 your share of the partnership's unrecaptured section 1250 gain that would result if the partnership had transferred all of its section 1250 property in a fully taxable transaction immediately before you sold or exchanged your interest in that partnership. If you recognized less than all of the realized gain, the partnership will be treated as having transferred only a proportionate amount of each section 1250 property. For details, see Regulations section 1.1(h)-1. Also attach the statement required under Regulations section 1.1(h)-1(e).

Line 12. An example of an amount to include on line 12 is unrecaptured section 1250 gain from the sale of a vacation home you previously used as a rental property but converted to personal use prior to the sale. To figure the amount to enter on line 12, follow the applicable instructions below.

Installment sales. To figure the amount to include on line 12, follow the steps below for each installment sale of property held more than 1 year for which you didn't make an entry in Part I of your Form 4797 for the year of sale.

- Step 1. Figure the smaller of (a) the depreciation allowed or allowable, or (b) the total gain for the sale. This is the smaller of line 22 or line 24 of your 2016 Form 4797 (or the comparable lines of Form 4797 for the year of sale) for the property.
- Step 2. Reduce the amount figured in step 1 by any section 1250 ordinary income recapture for the sale. This is the amount from line 26g of your 2016 Form 4797 (or the comparable line of Form 4797 for the year of sale) for the property. The result is your total unrec-

28% Rate Gain Worksheet—Line 18

1.	Enter the total of all collectibles gain or (loss) from items you reported on Form 8949, Part II	**1.** _____
2.	Enter as a positive number the total of: • Any section 1202 exclusion you reported in column (g) of Form 8949, Part II, with code "Q" in column (f), that is 50% of the gain; • 2/3 of any section 1202 exclusion you reported in column (g) of Form 8949, Part II, with code "Q" in column (f), that is 60% of the gain; and • 1/3 of any section 1202 exclusion you reported in column (g) of Form 8949, Part II, with code "Q" in column (f), that is 75% of the gain. Don't make an entry for any section 1202 exclusion that is 100% of the gain.	**2.** _____
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.** _____
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.** _____
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.** _____

aptured section 1250 gain that must be allocated to the installment payments received from the sale.

- Step 3. Generally, the amount of capital gain on each installment payment is treated as unrecaptured section 1250 gain until the total unrecaptured section 1250 gain figured in step 2 has been used in full. Figure the amount of gain treated as unrecaptured section 1250 gain for installment payments received in 2016 as the smaller of (a) the amount from line 26 or line 37 of your 2016 Form 6252, whichever applies, or (b) the amount of unrecaptured section 1250 gain remaining to be reported. This amount is generally the total unrecaptured section 1250 gain for the sale reduced by all gain reported in prior years (excluding section 1250 ordinary income recapture). However, if you chose not to treat all of the gain from payments received after May 6, 1997, and before August 24, 1999, as unrecaptured section 1250 gain, use only the amount you chose to treat as unrecaptured section 1250 gain for those payments to reduce the total unrecaptured section 1250 gain remaining to be reported for the sale. Include this amount on line 12.

Other sales or dispositions of section 1250 property. For each sale of property held more than 1 year (for which you didn't make an entry in Part I of Form 4797), figure the smaller of (a) the depreciation allowed or allowable, or (b) the total gain for the sale. This is the smaller of line 22 or line 24 of Form 4797 for the property. Next, reduce that amount by any section 1250 ordinary income recapture for the sale. This is the amount from line 26g of Form 4797 for the property. The result is the total unrecaptured section 1250 gain for the sale. Include this amount on line 12.

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Line 21

You have a capital loss carryover from 2016 to 2017 if you have a loss on line 16 and either:

- That loss is more than the loss on line 21, or
- The amount on Form 1040, line 41 (or Form 1040NR, line 39, if applicable), is less than zero.

To figure any capital loss carryover to 2017, you will use the Capital Loss Carryover Worksheet in the 2017 Instructions for Schedule D. If you want to figure your carryover to 2017 now, see Pub. 550.

TIP *You will need a copy of your 2016 Form 1040 and Schedule D to figure your capital loss carryover to 2017.*

Unrecaptured Section 1250 Gain Worksheet—Line 19

If you aren't 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 didn't have any such property, go to line 4. If you had more than one such property, see instructions		**1.**	_____
2.	Enter the amount from Form 4797, line 26g, for the property for which you made an entry on line 1		**2.**	_____
3.	Subtract line 2 from line 1		**3.**	_____
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.**	_____
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.**	_____
6.	Add lines 3 through 5		**6.**	_____
7.	Enter the **smaller** of line 6 or the gain from Form 4797, line 7	**7.** _____		
8.	Enter the amount, if any, from Form 4797, line 8	**8.** _____		
9.	Subtract line 8 from line 7. If zero or less, enter -0-		**9.**	_____
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.**	_____
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.**	_____
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 didn't make an entry in Part I of Form 4797 for the year of sale (see instructions)		**12.**	_____
13.	Add lines 9 through 12		**13.**	_____
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.** _____		
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.**	_____
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.**	_____

*If you're 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.

Schedule D Tax Worksheet

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: Don't 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're 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.** _____

2. Enter your qualified dividends from Form 1040, line 9b (or Form 1040NR, line 10b) . . . . . **2.** _____

3. Enter the amount from Form 4952 (used to figure investment interest expense deduction), line 4g . . . . . **3.** _____

4. Enter the amount from Form 4952, line 4e* . . . . . **4.** _____

5. Subtract line 4 from line 3. If zero or less, enter -0- . . . . . **5.** _____

6. Subtract line 5 from line 2. If zero or less, enter -0-** . . . . . **6.** _____

7. Enter the **smaller** of line 15 or line 16 of Schedule D . . . . . **7.** _____

8. Enter the **smaller** of line 3 or line 4 . . . . . **8.** _____

9. Subtract line 8 from line 7. If zero or less, enter -0-** . . . . . **9.** _____

10. Add lines 6 and 9 . . . . . **10.** _____

11. Add lines 18 and 19 of Schedule D** . . . . . **11.** _____

12. Enter the **smaller** of line 9 or line 11 . . . . . **12.** _____

13. Subtract line 12 from line 10 . . . . . **13.** _____

14. Subtract line 13 from line 1. If zero or less, enter -0- . . . . . **14.** _____

15. Enter:
- $37,650 if single or married filing separately;
- $75,300 if married filing jointly or qualifying widow(er); or
- $50,400 if head of household

. . . . . **15.** _____

16. Enter the **smaller** of line 1 or line 15 . . . . . **16.** _____

17. Enter the **smaller** of line 14 or line 16 . . . . . **17.** _____

18. Subtract line 10 from line 1. If zero or less, enter -0- . . . . . **18.** _____

19. Enter the **larger** of line 17 or line 18 . . . . . **19.** _____

20. Subtract line 17 from line 16. This amount is taxed at 0%. . . . . **20.** _____

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.** _____

22. Enter the amount from line 20 (if line 20 is blank, enter -0-) . . . . . **22.** _____

23. Subtract line 22 from line 21. If zero or less, enter -0- . . . . . **23.** _____

24. Enter:
- $415,050 if single;
- $233,475 if married filing separately;
- $466,950 if married filing jointly or qualifying widow(er); or
- $441,000 if head of household

. . . . . **24.** _____

25. Enter the smaller of line 1 or line 24 . . . . . **25.** _____

26. Add lines 19 and 20 . . . . . **26.** _____

27. Subtract line 26 from line 25. If zero or less, enter -0- . . . . . **27.** _____

28. Enter the **smaller** of line 23 or line 27 . . . . . **28.** _____

29. Multiply line 28 by 15% (0.15) . . . . . **29.** _____

30. Add lines 22 and 28 . . . . . **30.** _____

If lines 1 and 30 are the same, skip lines 31 through 41 and go to line 42. Otherwise, go to line 31.

Schedule D Tax Worksheet—*Continued*

31.	Subtract line 30 from line 21		**31.**		
32.	Multiply line 31 by 20% (0.20)			**32.**	
	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.**		
34.	Add lines 10 and 19	**34.**			
35.	Enter the amount from line 1 above	**35.**			
36.	Subtract line 35 from line 34. If zero or less, enter -0-		**36.**		
37.	Subtract line 36 from line 33. If zero or less, enter -0-		**37.**		
38.	Multiply line 37 by 25% (0.25)			**38.**	
	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.**		
40.	Subtract line 39 from line 1		**40.**		
41.	Multiply line 40 by 28% (0.28)			**41.**	
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.**	
43.	Add lines 29, 32, 38, 41, and 42			**43.**	
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.**	
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're filing Form 2555 or 2555-EZ, don't 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.**	

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

**If you're 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.