INTERNAL REVENUE SERVICE

IRS Fact Sheet

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Reporting Capital Gains

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In order to educate taxpayers about their filing obligations, this fact sheet, the twelfth in a series, provides information with regard to capital gains reporting. Incorrect reporting of capital gains accounts for part of an estimated $345 billion per year in unpaid taxes, according to Internal Revenue Service estimates.

Almost everything you own and use for personal purposes, pleasure, business or investment is a capital asset, including:

- Your home
- Household furnishings
- Stocks or bonds
- Coin or stamp collections
- Gems and jewelry
- Gold, silver or any other metal, and
- Business property

Understanding Basis

The difference between the amount for which you sell the capital asset and your basis, which is usually what you paid for it, is a capital gain or a capital loss. You have a capital gain if you sell the asset for more than your basis. You have a capital loss if you sell the asset for less than your basis.

Your basis is generally your cost plus improvements. You must keep accurate records that show your basis. 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, non-dividend distributions on stock, and stock splits.

While all capital gains are taxable and must be reported on your tax return, only capital losses on investment or business property are deductible. Losses on sales of personal

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property are not deductible. More information about increases and decreases to basis can be found in Publication 551, Basis of Assets.

Schedule D

Capital gains and deductible capital losses are reported on Form 1040, Schedule D, Capital Gains and Losses, and then transferred to line 13 of Form 1040, U.S. Individual Income Tax Return. Capital gains and losses are classified as long-term or short term. If you hold the asset for more than one year, your capital gain or loss is long-term. If you hold the asset one year or less, your capital gain or loss is short-term. To figure the holding period, begin counting on the day after you received the property and include the day you disposed of the property.

You may have to make estimated tax payments if you have a taxable capital gain. Refer to Publication 505, *Tax Withholding and Estimated Tax*, for additional information.

Other Rules

Home — If you sell your residence, you may be able to exclude from income any gain up to a limit of $250,000 ($500,000 on a joint return in most cases). To exclude the gain, you must have owned and lived in the property as your main home for at least 2 years during the 5-year period ending on the date of sale. Generally, you cannot exclude gain on the sale of your home if, during the 2-year period ending on the date of the sale, you sold another home at a gain and excluded all or part of that gain. If you cannot exclude gain, you must include it in income. To determine the maximum dollar limit you can exclude and for additional information, refer to Publication 523, Selling Your Home. You cannot deduct a loss on the sale of your home.

Property outside U.S. — U.S. citizens who sell property located outside the United States must also report gains from these sales, unless the property is exempt by U.S. law. Reporting is required whether you reside inside or outside the United States and whether or not you receive a Form 1099 from the payer.

Installment sales — If you sold property (other than publicly traded stocks or securities) at a gain and will receive any payments in a year after the year of sale, you generally must report the sale on the installment method using Form 6252, Installment Sale Income. You can elect out of the installment method by reporting the entire gain in the year of sale.

Investment Transactions — Gains from sales and trades of stocks, bonds, or certain commodities are usually reported to you on Form 1099-B, Proceeds From Broker and Barter Exchange Transactions, or an equivalent statement. Your basis, the sales price, and the resulting capital gain or loss is entered on Form 1040, Schedule D, Capital Gains and Losses.

Gains from the sale of business property are reported on Form 4797, Sales of Business Property and flow to Form 1040, Schedule D. See Publication 544, *Sales and Other Dispositions of Assets* for additional information on the sale of business property.

Capital gain distributions from mutual funds are reported to you on Form 1099-DIV, Dividends and Distributions. Capital gain distributions are taxed as long-term capital gains regardless of how long you have owned the shares in the mutual funds. If capital gain distributions are automatically reinvested, the reinvested amount is the basis of the additional shares purchased.

For additional information about reporting gains from investments see Publication 17, *Your Federal Income Tax*; Publication 550, Investment Income and Expenses*;* and Publication 564, *Mutual Fund Distributions*. Answers to Frequently Asked Questions about capital gains are also available on irs.gov.

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