

Instructions

(References are to the Internal Revenue Code.)

This schedule provides for the reporting of sales or exchanges of capital assets. Every sale or exchange of property must be reported even though no gain or loss is indicated.

See Form 4797 and related instructions for reporting sales or exchanges of property other than capital assets including the sale or exchange of property used in the trade or business and involuntary conversions (section 1231); also, gain from the disposition of interest in oil or gas property (section 1254).

Parts I and II

Capital Assets.—Each item of property held by a corporation (whether or not connected with its trade or business) is a capital asset except: (1) inventorable assets or property held primarily for sale to customers; (2) depreciable or real property used in the trade or business; (3) certain copyrights, literary, musical, or artistic compositions, letters or memorandums, or similar property; (4) accounts or notes receivable acquired in the ordinary course of trade or business for services rendered or from the sale of property described in (1) above; (5) certain short-term Federal, State, and municipal obligations; and (6) a publication of the United States Government (including the Congressional Record) which is received from the United States Government or any agency thereof, other than by purchase at the price at which it is offered for sale to the public, and which is held by (a) a taxpayer who so received such publication, or (b) a taxpayer in whose hands the basis of such publication is determined, for purposes of determining gain from a sale or exchange, in whole or in part by reference to the basis of such publication in the hands of a taxpayer described in 6(a). (Item 6) applies to sales, exchanges, and contributions made after October 4, 1976.)

Exchange of "Like Kind" Property.—Although no gain or loss is recognized when property held for productive use in a trade or business or for investment (not including stock in trade or other property held primarily for sale, nor stocks, bonds, notes, choses in action, certificates of trust or beneficial interest, or other securities or evidences of indebtedness or interest) is exchanged solely for property of a "like kind" to be held either for productive use in a trade or business or for investment, you must report the transaction on Schedule D (Form 1120) or Form 4797, whichever is applicable. If Schedule D is applicable, identify the property disposed of in column (a). Enter the date of acquisition in column (b) and write the date of exchange in column (c). Write "like kind exchange" in column (d) and enter the adjusted basis in column (e). Enter zero in column (f). (See section 1031.)

Gain from Sale of Depreciable Property Between Certain Related Taxpayers.—Gain from the sale or exchange of depreciable property between related persons is ordinary income if

such property is, in the hands of the transferee, subject to depreciation. "Related persons" includes: (1) an individual and a corporation 80 percent or more in value of the outstanding stock of which is owned, directly or indirectly, by or for such individual; or (2) two or more corporations 80 percent or more in value of the outstanding stock of each of which is owned, directly or indirectly, by or for the same individual. In general, section 318 shall apply with respect to the constructive ownership of stock. Item (2) only applies to sales or exchanges made after October 4, 1976, unless the sale or exchange was made pursuant to a binding contract entered into on or before that date. (See section 1239.)

Capital Losses.—Capital losses are allowed only to the extent of capital gains. A net capital loss, however, may be carried back three years and forward five as a short-term capital loss. The capital loss may be carried back only to the extent it does not increase or produce a net operating loss in the taxable year to which it is being carried. Foreign expropriation capital losses may not be carried back but may be carried forward ten years instead of five. A net capital loss for a regulated investment company may be carried forward eight years instead of five.

Under the provisions of section 6411, a quick refund of the tax overpayment created by the capital loss carryback may be obtained by filing Form 1139. If a net capital loss carryback creates an unused investment credit or an unused work incentive (WIN) credit in a preceding year, the unused credit may be carried back to the three preceding years (however, the WIN credit cannot be carried back to years beginning before 1972), and, under the provisions of section 6411, a quick refund of the tax overpayment may likewise be obtained by filing Form 1139.

Short Sales of Capital Assets.—For rules relating to certain short sales of stock or other securities, and transactions in commodity futures, see section 1233.

Worthless Securities.—Except for banks, if securities which are capital assets become wholly worthless during the taxable year, the loss is to be treated as a capital loss as of the last day of the taxable year.

Losses Not Allowable.—No loss is allowed for wash sales of stock or securities. (See section 1091.) No loss is allowed (distributions in liquidation excepted) on transactions between related persons. (See section 267.)

Options to Buy or Sell.—See section 1234 for rules pertaining to the treatment of gain or loss in the case of a purchaser or that of a grantor of an option in the case of stock, securities, or commodities granted after September 1, 1976.

Basis.—In determining gain or loss, the basis of property will generally be its cost. If property was acquired by bequest, gift, tax-free exchange, involuntary conversion, or wash sale of stock, see sections 1014, 1015, 1031, 1033, and 1091, respectively. Attach an explanation if the basis used is other than actual cash cost of the property.

If a charitable contribution deduction is allowed by reason of a sale of property to a char-

itable organization, the adjusted basis for determining gain from the sale is an amount which is in the same ratio to the adjusted basis as the amount realized is to the fair market value.

Insurance Companies.—Companies taxable under section 831 having losses from capital assets sold or exchanged to obtain funds to meet abnormal insurance losses, etc., shall attach a schedule corresponding to Schedule A-3 of Form 1120M. For companies taxable under section 821, all references to line numbers on Form 1120 are to be considered as references to the appropriate line on Form 1120M.

Part IV

Alternative Tax Computation.—If you have an excess of net long-term capital gain over net short-term capital loss compute the tax using the alternative method (section 1201) to determine if the resulting tax is less than the tax computed using the regular method.

The alternative tax is the sum of (1) a partial tax computed at the normal tax and surtax rates on the taxable income decreased by the excess of net long-term capital gain over net short-term capital loss, plus (2) 30% of such excess.

In computing the alternative tax, deductions subject to a limitation based upon taxable income (such as contributions and the special deductions in Schedule I) do not have to be recomputed.

Members of a Controlled Group.—For members of a controlled group, the \$50,000 surtax exemption is to be divided equally unless the group consents to split up the exemption in accordance with an apportionment plan. Accordingly, for purposes of lines 13 and 15, members of a controlled group will enter one-half of their surtax exemption on line 13 and the remaining one-half on line 15. For example, if there are 5 members and they allocate the \$50,000 surtax exemption equally (i.e. \$10,000 each), each member will enter on line 13, one-half of \$10,000, i.e. \$5,000, and on line 15, the remaining one-half of the surtax exemption, i.e. \$5,000.

Minimum Tax on Tax Preference Items.—If the net long-term capital gain exceeds the net short-term capital loss, you may be liable for minimum tax. See Form 4626.

Installment Sales

If you sold personal property for more than \$1,000 or real property regardless of amount, you may be eligible to report any gain under the installment method if (1) there are no payments in the year of sale or (2) the payments in the year of sale do not exceed 30% of the selling price. (See section 453.) Such sales must provide for two or more payments, with at least one payment being made in each of two taxable years.

For treatment of a portion of payments as "unstated interest" on deferred payment sales, see section 483.