



# Instructions

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

## Purpose of Form

Schedule D should be used by a taxpayer who files either Forms 1120, 1120-DISC, 1120F, 1120-H, 1120L, 1120M, 1120-POL, 990-C, or certain Forms 990-T, to report sales or exchanges of capital assets. Sales or exchanges of property other than capital assets, including property used in a trade or business, involuntary conversions (other than casualties or thefts), and gain from the disposition of interest in oil, gas, or geothermal property, should be reported on Form 4797, Supplemental Schedule of Gains and Losses. See the instructions for Form 4797 for more information.

If property is involuntarily converted because of a casualty or theft, use Form 4684, Casualties and Thefts.

## Parts I and II

Generally, you should report the sales and exchanges, including "like-kind" exchanges, even though there is no gain or loss. No loss is allowed for a wash sale of stock or securities or from a transaction between related persons. (Sections 1091 and 267.)

In Part I report the sale or exchange of capital assets held one year or less. In Part II report the sale or exchange of capital assets held more than one year.

**What are Capital Assets.**—Each item of property you held (whether or not connected with your trade or business) is a capital asset except:

1. Assets that can be inventoried or property held mainly 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. A U.S. Government publication (including the Congressional Record), received from the Government or any of its agencies in a manner other than by buying it at the price offered for public sale, which is held by a taxpayer who received the publication or by a second taxpayer in whose hands the basis of the publication is determined, for purposes of determining gain from a sale or exchange, by referring to its basis in the hands of the first taxpayer.

**Exchange of "like-kind" property.**—Report the exchange of "like-kind" property on Schedule D or on Form 4797, whichever applies. You must report it even though no gain or loss is recognized when you exchange business or investment property for property of "like-kind." (This does not include stock in trade or other property held primarily for sale. It also does not include stocks, bonds, notes, choses in action, certificates of trust or beneficial interest, or other securities or evidences of indebtedness or interest.)

If you use Schedule D, identify in column a, the property you disposed of. Enter the date you acquired it in column b, and the date you exchanged it in column c. Write "like-kind exchange" in column d. Enter the cost or other basis in column e. Enter zero in column f.

## Special Rules for the Treatment of Certain Gains and Losses

**Note:** For more information, get **Publication 544, Sales and Other Dispositions of Assets.**

● **Gains and losses on regulated futures contracts and straddles.**—Generally, regulated future contracts open at the end of the year, or terminated during the year, are treated as 60% long-term and 40% short-term regardless of how long the contracts were held. In addition, losses from positions that are part of a straddle are not allowed if the wash sale rules apply or are deferred to the extent of any unrealized gains on open offsetting positions. Use Form 6781, Gains and Losses From Regulated Futures Contracts and Straddles, to report gains and losses from regulated futures contracts and straddles.

● **Gain or loss on certain short-term Federal, State, and municipal obligations.**—Such obligations are treated as capital assets in determining gain or loss. On any gain realized, a portion is treated as ordinary income and the balance is considered as a short-term capital gain. See section 1232(a)(3).

● **Gain from installment sales.**—If you sold property at a gain this year and are to receive any payment in a later tax year, you must use the installment method and file Form 6252, Computation of Installment Sale Income.

However, you may elect out of the installment method by doing the following on a timely filed return (including extensions):

(1) Enter in the margin of Schedule D, next to the sale, "I elect out of the installment method."

(2) If you received a note or other obligation and are reporting it at less than face value, state that fact in the margin and give the percentage of valuation.

Also use Form 6252 if you received a payment in 1983 from a sale made in an earlier year on the installment basis.

● **Gain or loss on an option to buy or sell property.**—See section 1234 for the rules that apply to a purchaser or grantor of an option.

● **Gain or loss from a short sale of property.**—Report the gain or loss to the extent that the property used to close the short sale is considered a capital asset in the hands of the taxpayer.

● **Gains and losses of foreign corporations from the disposition of investment in United States real property.**—Foreign corporations are required to report gains and losses from the disposition of U.S. real property interests. See section 897 for details.

● **Gains on certain insurance property.**—Form 1120L filers with gains on property held on December 31, 1958, and certain substituted property acquired after 1958 should see section 817(b) and related regulations.

● **Loss from the sale or exchange of an insurance company's capital assets.**—Report the loss if the assets were sold or exchanged to get funds to meet abnormal insurance losses. If you are an insurance company taxed under section 831 and are reporting a loss on Schedule D, also attach a schedule similar to Schedule C of Form 1120M. If you are an insurance company taxed under section 821, all references to line numbers on Form 1120 are to be considered as references to the appropriate line on Form 1120M.

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

## How to Determine the Cost or Other Basis of the Property

In determining gain or loss, the basis of property will generally be its cost (section 1012). The exceptions to the general rule are provided in sections contained in subchapters C, K, O, and P of the Code. For example, if you acquired the property by dividend, liquidation of a corporation, transfer from a shareholder, reorganization, contribution or gift, bequest, bankruptcy, tax-free exchange, involuntary conversion, or wash sale of stock, see sections 301, 334, 362 (or 358), 1015, 1014, 372 (or 374), 1031, 1033, and 1091, respectively. Attach an explanation if you use a basis other than actual cash cost of the property.

If you are allowed a charitable contribution deduction because you sold property to a charitable organization, figure the adjusted basis for determining gain from the sale by dividing the amount realized by the fair market value and multiplying that result by the adjusted basis.

**Capital Losses.**—The amount of capital losses allowed may not be more than capital gains. A net capital loss may be carried back 3 years and forward 5 years as a short-term capital loss. Carry back a capital loss to the extent it does not increase or produce a net operating loss in the tax year to which you carry it. You may not carry back foreign expropriation capital losses, but you may carry them forward 10 years instead of 5. A net capital loss for a regulated investment company may be carried forward 8 years instead of 5.

**At risk limitations (section 465).**—If you sold or exchanged an asset used in an activity to which the at risk rules apply, combine the gain or loss on the sale or exchange with the profit or loss from the activity. If you have a net loss from the activity, it may be subject to the at risk rules.

## Part III—Summary of Schedule D Gains and Losses

If the net long-term capital gain is more than the net short-term capital loss, there is a net capital gain. In that case, you may want to complete Part IV to determine if the resulting alternative tax is less than the tax figured using the regular method.

## Part IV—Alternative Tax Computation

● Forms 1120-H and 1120-DISC filers omit Part IV.

● Form 1120L filers see Form 1120L instructions for line 6 before figuring the alternative tax.

In figuring the alternative tax, you do not have to refigure deductions limited by the amount of taxable income (such as contributions and the special deductions in Schedule C of Form 1120).

If the alternative tax amount on line 17 is less than the tax figured by the regular method, enter the amount of alternative tax on Form 1120, Schedule J, line 3; or the proper line on other returns. Also check the box for Schedule D.

If there is a net capital gain, you may be liable for minimum tax. See Form 4626, Computation of Minimum Tax—Corporations, for more information.