

Exchange of like-kind property.—A like-kind exchange occurs when the corporation exchanges business or investment property for property of a like kind. Complete and attach to the tax return **Form 8824, Like-Kind Exchanges**, for each exchange.

For exchanges of capital assets, enter the gain or loss from Form 8824, if any, on line 3 or line 9 in column (f). If an exchange was made with a related party, write "Related Party Like-Kind Exchange" at the top of Schedule D. See Form 8824 and its instructions for details.

Capital losses.—Capital losses are allowed only to the extent of 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 it is carried. Foreign expropriation capital losses may not be carried back, but may be carried forward 10 years. A net capital loss for a regulated investment company may be carried forward 8 years.

Special Rules for the Treatment of Certain Gains and Losses

Note: For more information, get **Pub. 544, Sales and Other Dispositions of Assets**, and **Pub. 542, Tax Information on Corporations**.

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

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

● **Gain on distributions of appreciated property.**—Generally, gain (but not loss) is recognized on a nonliquidating distribution of appreciated property to the extent that the property's fair market value exceeds its adjusted basis. See section 311 for more information.

● **Gain or loss on distribution of property in complete liquidation.**—Generally, gain or loss is recognized on property distributed in a complete

liquidation. Treat the property as if it had been sold at its fair market value. An exception to this rule applies for liquidations of certain subsidiaries. See sections 336 and 337 for more information and other exceptions to the general rules.

● **Gains and losses on section 1256 contracts and straddles.**—Use **Form 6781, Gains and Losses From Section 1256 Contracts and Straddles**, to report these gains and losses.

● **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 as a short-term capital gain. See section 1271.

● **Gain from installment sales.**—Use **Form 6252, Installment Sale Income**, to report a gain from the casual sale of real or personal property (other than inventory) if payments will be received in more than 1 tax year. See the instructions below for how to elect out of the installment method. Also use Form 6252 if a payment is received this year from a sale made in an earlier year on the installment method.

To elect out of the installment method, report the following on Schedule D with a timely filed return (including extensions):

1. The full amount of the sale.
2. If the corporation received a note or other obligation and is reporting it at less than face value (including all contingent obligations), state that fact in the margin and give the percentage of valuation.

The installment method may not be used for sales of stock or securities (or certain other property described in the regulations) traded on an established securities market. See section 453(k).

● **Gain or loss on an option to buy or sell property.**—See sections 1032 and 1234 for the rules that apply to a purchaser or grantor of an option.

● **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 U.S. 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 818(c).

● **Gain or loss from shares purchased in a regulated investment company (RIC).**—In some cases, the load charge (advance charge for sales fees) incurred to purchase shares in a RIC may not be allowed when figuring the basis for gain or loss on the disposition of the shares. See section 852(f) if the shares were disposed of within 90 days of purchase, and the load charge on stock subsequently acquired in that RIC (or another RIC) was reduced because of a reinvestment right.

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

● **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.)

● **Disposition of market discount bonds.**—See section 1276 for rules on the disposition of any market discount bonds issued after July 18, 1984.

● **Capital gain distributions.**—Report capital gain distributions paid by mutual funds as long-term capital gains on line 6 regardless of how long the corporation owned stock in the fund.

Determining the Cost or Other Basis of Property

In determining gain or loss, the basis of property will generally be its cost. See section 1012 and the related regulations. Exceptions to the general rule are provided in sections in subchapters C, K, O, and P of the Code. For example, if the corporation acquired the property by dividend, liquidation of a corporation, transfer from a shareholder, reorganization, bequest, contribution or gift, tax-free exchange, involuntary conversion, certain asset acquisitions, or wash sale of stock, see sections 301 (or 1059), 334, 362 (or 358), 1014, 1015, 1031, 1033, 1060, and 1091, respectively. Attach an explanation if the corporation uses a basis other than actual cash cost of the property.

If the corporation is allowed a charitable contribution deduction because it 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.