Form **6781**

Department of the Treasury
Internal Revenue Service

Gains and Losses From Section 1256 Contracts and Straddles

▶ **Attach to your tax return**

OMB No. 1545-0644

1986

Attachment Sequence No. **82**

Name(s) as shown on tax return | **Identifying number**

A. ☐ Check here if you made the mixed straddle election under section 1256(d) this year or an earlier year.
B. ☐ Check here if you made the straddle-by-straddle identification election under section 1092(b).
C. ☐ Check here to make the mixed straddle account election under section 1092(b).
D. ☐ Check here if you elect to carryback a net section 1256 contracts loss.

Part I Section 1256 Contracts Marked to Market

	a. Identification of account	b. LOSS	c. GAIN
1			
2	Add column b and column c, line 1	( )	
3	Combine columns b and c of line 2 and enter the net gain or (loss)		
4	Form 1099-B adjustments (see instructions, attach schedule)		
5	Combine lines 3 and 4		
6	If you have a net section 1256 contracts loss and checked box D, enter the amount to be carried back		( )
7	Subtract line 6 from line 5		
8	Multiply line 7 by 40%. Enter as a short-term capital gain or (loss) on Schedule D. Identify as Form 6781, Part I		
9	Multiply line 7 by 60%. Enter as a long-term capital gain or (loss) on Schedule D. Identify as Form 6781, Part I		

Part II Gains and Losses From Straddles (Attach a separate schedule listing each straddle and its components.)

For Paperwork Reduction Act Notice, see back of form.

Instructions

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

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Form.—Form 6781 is to be used by all taxpayers that held section 1256 contracts or straddles. For more information, see **Publication 550**, Investment Income and Expenses.

Gain or loss to traders of section 1256 contracts is treated as capital gain or loss. However, such transactions are subject to self-employment tax without the 60% capital gain deduction.

Do not use Form 6781 to report hedging transactions. Report them directly on your tax return. Any gain or loss on a hedging transaction is treated as ordinary income or loss. For information about hedging transactions and the limitation on their losses, see Publication 550.

Mixed straddle election.—You may elect not to have the marked to market rules apply to section 1256 contracts that are part of a mixed straddle. A mixed straddle is any straddle, at least one (but not all) of the positions of which is a section 1256 contract. Each position forming part of the straddle must be clearly identified on the day the first section 1256 contract forming part of the straddle is acquired as being part of such straddle. If you made this election, it will apply for all later years as well. It cannot be revoked without the consent of the Commissioner. If you made this election, check box A and report the section 1256 component in Part II instead of Part I.

Straddle-by-straddle identification election.—Make this election according to Regulation section 1.1092(b)-3T(d) by clearly identifying each position before the earlier of the close of the day the identified mixed straddle is established, or at or before the time the position is disposed of. No straddle-by-straddle identification election may be made for any straddle in which a mixed straddle election was made or if one or more positions are includible in a mixed straddle account. See Regulation section 1.1092(b)-3T for more information, and treatment of gains and losses from positions included in a mixed straddle for which a straddle-by-straddle identification election is made.

Mixed straddle account election.—Make this election according to Regulation section 1.1092(b)-4T(f) to establish one or more mixed straddle accounts for 1987, by the due date (without extensions) of your 1986 tax return. To make this election, check box C and attach the statement required by that regulation to your return. See Regulation section 1.1092(b)-4T for more information, including definition of mixed straddle account, and treatment of gains and losses from positions in a mixed straddle account. Also, see regulation 1.1092(b)-4T(c)(4) for the limitation on the total annual account net gain or loss.

In both the straddle-by-straddle identification election and mixed straddle account election, if the net gain or loss is attributable to a net-non-section 1256 position, then the net gain or loss is treated as a short-term capital gain or loss. Enter it directly on your Schedule D and identify the election. If the net gain or loss is attributable to a section 1256 position, enter the gain or loss in Part I of Form 6781 and identify the election.

If you did not make these elections, and you have a loss on the section 1256 component, use Part II to reduce the loss by any unrecognized gain on the non-section 1256 component before making an entry in Part I. You must also reduce the loss from any section 1256 component of a straddle which would be a mixed straddle if the positions had been properly identified as such.

Net section 1256 contracts loss election.—An individual or partnership having a net section 1256 contracts loss for 1986 may elect to carry it back three years. The amount which may be carried back cannot be more than the net section 1256 contracts gain in the year to which the loss is carried. The loss is carried to the earliest year first. See section 1212(c) for definition of net section 1256 contracts loss and net section 1256 contracts gain. Make the election by checking box D and entering the amount to be carried back in line 6. To carry your loss back, file an amended Form 6781 for the applicable year, together with a Form 1040X or amended return.

Part I

A section 1256 contract is (1) any regulated futures contract, (2) any foreign currency contract, (3) any nonequity option, and (4) any dealer equity option.

A regulated futures contract is a contract for which the amount required to be deposited or withdrawn depends on a system of marking to market, and is traded on or subject to the rules of a qualified board or exchange.

For definitions of qualified board or exchange, foreign currency contract, nonequity option, and dealer equity option, see Publication 550.

Include in Part I all section 1256 contracts open at the end of your tax year or closed out during the year. If you receive a Form 1099-B or equivalent statement, enter the amount from box 9 of each form in columns b or c of Form 6781, Part I. In column a of Form 6781, Part I, write "Form 1099-B" and identify the account by writing the broker's name.

On Form 6781, Part I, list each transaction separately for which you do not receive a Form 1099-B or equivalent statement, or if the Form 1099-B is not for your tax year. Describe each transaction in column a.

Line 4.— If the Form 1099-B you receive includes a straddle or hedging transaction, it may be necessary to make certain adjustments listed in (a) through (c) below. Attach a schedule listing each adjustment and enter the total on line 4.

(a) Enter the regulated futures part of a mixed straddle if you made any of the mixed straddle elections.

(b) If you did not make any of the mixed straddle elections or the straddle wasn't identified as a mixed straddle and you had a loss on the regulated futures part which was less than the unrecognized gain on the non-regulated futures part, enter the amount of the loss. If the unrecognized gain is less than the loss, enter the unrecognized gain. Use Part I for a loss on the disposition of one or more positions that are part of a mixed straddle and that are non-section 1256 positions if the disposition of no non-section 1256 position in the straddle would be a long-term capital gain or loss, and the disposition of one or more section 1256 positions in the straddle would be a capital gain or loss.

(c) Enter the regulated futures part of a hedging transaction.

Part II

Attach a separate schedule listing each straddle and its component positions.

Use section A for losses from positions that are part of a straddle. A loss is allowed only to the extent it exceeds the unrecognized gain on offsetting positions. The part of the loss not allowed is treated as if incurred in the following year.

Use section B for gains from positions that are part of a straddle.

Do not include in Part II dispositions of one or more positions that are part of a hedging transaction, a disposition of a loss position included in an identified straddle or a mixed straddle account, and disposition of a position that is part of a straddle if all the positions of the straddle are section 1256 contracts.

Straddle.—A straddle means offsetting positions with respect to personal property.

Offsetting positions.—If there is a substantial decrease in risk of loss to a taxpayer holding a position because that taxpayer or a related party also holds one or more other positions, then those positions are offsetting. If any position is not part of an identified straddle, such position cannot be treated as offsetting any position that is part of an identified straddle.

For further information concerning exceptions, definitions, related parties, flow through entities, and specific rules as to the tax treatment of gains and losses from straddles, see Publication 550.

Column a.—Enter the personal property, delivery date, and indicate whether the property is a long or short position .

Columns d and e.—For positions sold or closed out, enter the sales price or closing price in column d, and the cost or other basis plus commissions paid in column e. Include in column e interest and carrying charges properly allocable to personal property that is part of a straddle. You cannot deduct these expenses. See Publication 550 for more information about interest and carrying charges.

Section A, column f.—Include in this column any loss not allowed in the prior year to the extent of the unrecognized gain.

Section A, column g.—Enter the unrecognized gain on positions offsetting those in columns a through f. Figure this column by subtracting the cost or other basis of the offsetting position from the settlement price of that position as of the close of the last business day of your 1986 tax year. Do not enter less than zero.

Lines 11 and 13.—Separate recognized gains and losses into short-term and long-term. Attach a separate schedule. For information about the holding period for straddle positions, see Publication 550 and Regulation section 1.1092(b)-2T.

Part III

Section 1092 contains a reporting requirement. You must complete Part III by listing each position (whether or not part of a straddle) that you held at the end of the tax year (including any position you are treated as holding because it is held by a related party) if the settlement price of the position at such time exceeds your cost or other basis as adjusted.

Do not include the following in Part III:

- Positions that are part of an identified straddle;
- Property that is stock in trade or inventory;
- Positions that are part of a hedging transaction;
- Property used in a trade or business subject to depreciation.

If you do not have a loss on any position (including a regulated futures contract) for the entire tax year, or your only loss was on a position listed above, do not complete this part.