2004 Instructions for Schedule D

Capital Gains and Losses

Use Schedule D (Form 1040) to report the following.

- The sale or exchange of a capital asset (defined on this page) not reported on another form or schedule.
- Gains from involuntary conversions (other than from casualty or theft) of capital assets not held for business or profit.
- Capital gain distributions not reported directly on Form 1040, line 13.
- Nonbusiness bad debts.

Additional information: See Pub. 544 and Pub. 550 for more details. For a comprehensive filled-in example of Schedule D, see Pub. 550.

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

General Instructions

What’s New

Tax computation using maximum capital gains rates. You will now use the Qualified Dividends and Capital Gain Tax Worksheet on page 34 of the Instructions for Form 1040 to figure your tax if you have net capital gain or qualified dividends. However, if you have any 25% rate gain (unrecaptured section 1250 gain) or 28% rate gain, you will still use the Schedule D Tax Worksheet on page D-9 to figure your tax. Part IV of Schedule D has been eliminated.

Capital Loss Carryover Worksheet. Use the Capital Loss Carryover Worksheet on page D-6 to figure your capital loss carryover from 2003 to 2004. You will need a copy of your 2003 Form 1040 and Schedule D.

Gain on home acquired in a like-kind exchange. If you sold or exchanged your main home that you acquired in a like-kind exchange, you may not be able to exclude any of the gain. See Sale of Your Home on page D-2 for details.

Other Forms You May Have To File

Use Form 4797 to report the following.

1. The sale or exchange of:
   - Property used in a trade or business;
   - Depreciable and amortizable property;
   - Oil, gas, geothermal, or other mineral property; and
   - Section 126 property.
2. The involuntary conversion (other than from casualty or theft) of property used in a trade or business and capital assets held for business or profit.
3. The disposition of noncapital assets other than inventory or property held primarily for sale to customers in the ordinary course of your trade or business.
4. Ordinary loss on the sale, exchange, or worthlessness of small business investment company (section 1242) stock.
5. Ordinary loss on the sale, exchange, or worthlessness of small business stock (section 1244) stock.
6. Ordinary gain or loss on securities held in connection with your trading business, if you previously made a mark-to-market election. See Traders in Securities on page D-3.

Use Form 4684 to report involuntary conversions of property due to casualty or theft.

Use Form 6781 to report gains and losses from section 1256 contracts and straddles.

Use Form 8824 to report like-kind exchanges. A like-kind exchange occurs when you exchange business or investment property for property of a like kind.

Capital Asset

Most property you own and use for personal purposes, pleasure, or investment is a capital asset. For example, your house, furniture, car, stocks, and bonds are capital assets. A capital asset is any property held by you except the following.

- Stock in trade or other property included in inventory or held mainly for sale to customers.
- Accounts or notes receivable for services performed in the ordinary course of your trade or business or as an employee, or from the sale of stock in trade or other property held mainly for sale to customers.
- Depreciable property used in your trade or business, even if it is fully depreciated.
- Real estate used in your trade or business.
- Copyrights, literary, musical, or artistic compositions, letters or memoranda, or similar property: (a) created by your personal efforts; (b) prepared or produced for you (in the case of letters, memoranda, or similar property); or (c) that you received from someone who created them or for whom they were created, as mentioned in (a) or (b), in a way (such as by gift) that entitled you to the basis of the previous owner.
- U.S. Government publications, including the Congressional Record, that you received from the government, other than by purchase at the normal sales price, or that you got from someone who had received it in a similar way, if your basis is determined by reference to the previous owner’s basis.
- Certain commodities derivative financial instruments held by a dealer. See section 1221(a)(6).
- Certain hedging transactions entered into in the normal course of your trade or business. See section 1221(a)(7).
- Supplies regularly used in your trade or business.

Short Term or Long Term

Separate your capital gains and losses according to how long you held or owned the property. The holding period for short-term capital gains and losses is 1 year or less. The holding period for long-term capital gains and losses is more than 1 year. To figure the holding period, begin counting on the day after you received the property and include the day you disposed of it.

If you disposed of property that you acquired by inheritance, report the disposition as a long-term gain or loss, regardless of how long you held the property.

A nonbusiness bad debt must be treated as a short-term capital loss. See Pub. 550 for what qualifies as a nonbusiness bad debt and how to enter it on Schedule D.

Capital Gain Distributions

These distributions are paid by a mutual fund (or other regulated investment company) or real estate investment trust from its net realized long-term capital gains. Distributions of net realized short-term capital gains are not treated as capital gains. Instead, they are included on Form 1099-DIV as ordinary dividends.

Enter on line 13 the total capital gain distributions paid to you during the year, regardless of how long you held your in-
vestment. This amount is shown in box 2a of Form 1099-DIV.

If there is an amount in box 2b, include that amount on line 11 of the Unrecaptured Section 1250 Gain Worksheet on page D-8 if you complete line 19 of Schedule D.

If there is an amount in box 2c, see Exclusion of Gain on Qualified Small Business (QSBS) Stock on page D-4.

If there is an amount in box 2d, include that amount on line 4 of the 28% Rate Gain Worksheet on page D-7 if you complete line 18 of Schedule D.

If you received capital gain distributions as a nominee (that is, they were paid to you but they were paid to someone else), report on line 13 only the amount that belongs to you. Attach a statement showing the full amount you received and the amount you received as a nominee. See the Instructions for Schedule B for filing requirements for Forms 1099-DIV and 1096.

Sale of Your Home

If you sold or exchanged your main home, do not report any gain unless your gain exceeds your exclusion amount. Your exclusion amount is zero if you acquired your home in a like-kind exchange and you sold or exchanged the home after October 22, 2004, and during the 5-year period beginning on the date you acquired it. Generally, if you meet the two tests below, you can exclude up to $250,000 of gain. If both you and your spouse meet these tests and you file a joint return, you can exclude up to $500,000 of gain (but only one spouse needs to meet the ownership requirement in Test 1).

Test 1. You owned and used the home as your main home for 2 years or more during the 5-year period ending on the date you sold or exchanged your home.

Test 2. You have not sold or exchanged another main home during the 2-year period ending on the date of the sale or exchange of your home.

Even if you do not meet one or both of the above two tests, you still can claim an exclusion if you sold or exchanged the home because of a change in place of employment, health, or certain unforeseen circumstances. In this case, the maximum amount of gain you can exclude is reduced.

You can choose to have the 5-year test period for ownership and use in Test 1 above suspended during any period you or your spouse serve on qualified official duty as a member of the uniformed services or Foreign Service of the United States. This means you may be able to meet Test 1 even if, because of your service, you did not actually use the home as your main home for at least the required 2 years during the 5-year period ending on the date of sale.

See Pub. 523 for details, including how to report any taxable gain if:

• You (or your spouse if married) used any part of the home for business or rental purposes after May 6, 1997, or
• Your gain exceeds your exclusion amount.

Partnership Interests

A sale or other disposition of an interest in a partnership may result in ordinary income, collectibles gain (28% rate gain), or unrecaptured section 1250 gain. For details on 28% rate gain, see the instructions for line 18 on page D-7. For details on unrecaptured section 1250 gain, see the instructions for line 19 beginning on page D-7.

Capital Assets Held for Personal Use

Generally, gain from the sale or exchange of a capital asset held for personal use is a capital gain. Report it on Schedule D, Part I or Part II. However, if you converted depreciable property to personal use, all or part of the gain on the sale or exchange of that property may have to be recaptured as ordinary income. Use Part III of Form 4797 to figure the amount of ordinary income recapture. The recapture amount is included on line 31 (and line 13) of Form 4797. Do not enter any gain for this property on line 32 of Form 4797. If you are not completing Part III for any other properties, enter “None” in line 32.

If the total gain is more than the recapture amount, enter “From Form 4797” in column (a) of line 1 or line 8 of Schedule D, skip columns (b) through (e), and in column (f) enter the excess of the total gain over the recapture amount.

Loss from the sale or exchange of a capital asset held for personal use is not deductible. But if you had a loss from the sale or exchange of real estate held for personal use (which you received after you acquired it), you must report the transaction on Schedule D even though the loss is not deductible.

For example, you have a loss on the sale of a vacation home that is not your main home and you received a Form 1099-S for the transaction. Report the transaction on line 1 or 8, depending on how long you owned the home. Complete columns (a) through (e). Because the loss is not deductible, enter -0- in column (f).

Nondeductible Losses

Do not deduct a loss from the direct or indirect sale or exchange of property between any of the following.

• Members of a family.
• A corporation and an individual owning more than 50% of the corporation’s stock (unless the loss is from a distribution in complete liquidation of a corporation).
• A grantor and a fiduciary of a trust.
• A fiduciary and a beneficiary of the same trust.
• A fiduciary and a beneficiary of another trust created by the same grantor.
• An executor of an estate and a beneficiary of that estate, unless the sale or exchange was to satisfy a pecuniary bequest (that is, a bequest of a sum of money).
• An individual and a tax-exempt organization controlled by the individual or the individual’s family.

See Pub. 544 for more details on sales and exchanges between related parties.

If you disposed of (a) an asset used in an activity to which the at-risk rules apply or (b) any part of your interest in an activity to which the at-risk rules apply and you have amounts in this activity for which you are not at risk, see the Instructions for Form 6198.

If the loss is allowable under the at-risk rules, it may be subject to the passive activity rules. See Form 8582 and its instructions for details on reporting capital gains and losses from a passive activity.

Items for Special Treatment

• Transactions by a securities dealer. See section 1236.
• Bonds and other debt instruments. See Pub. 544.
• Certain real estate subdivided for sale that may be considered a capital asset. See section 1237.
• Gain on the sale of depreciable property to a more than 50% owned entity or to a trust of which you are a beneficiary. See Pub. 544.
• Gain on the disposition of stock in an interest charge domestic international sales corporation. See section 995(c).
• Gain on the sale of exchange of stock in certain foreign corporations. See section 1248.
• Transfer of property to a partnership that would be treated as an investment company if it were incorporated. See Pub. 541.
• Sales of stock received under a qualified public utility dividend reinvestment plan. See Pub. 550.
• Transfer of appreciated property to a political organization. See section 84.
• In general, no gain or loss is recognized on the transfer of property from an individual to a spouse or a former spouse if the transfer is incident to a divorce. See Pub. 504.
• Amounts received on the retirement of a debt instrument generally are treated as received in exchange for the debt instrument. See Pub. 550.
• Any loss on the disposition of converted wetland or highly erodible cropland that is first used for farming after March 1, 1986, is reported as a long-term capital loss on Schedule D, but any gain is reported as ordinary income on Form 4797.
• If qualified dividends that you reported on Form 1040, line 9b, include extraordinary dividends, any loss on the sale or exchange of the stock is a long-term capital loss to the extent of the extraordinary dividends. An extraordinary dividend is a dividend that equals or exceeds 10% (5% in the case of preferred stock) of your basis in the stock.
• Amounts received by shareholders in corporate liquidations. See Pub. 550.
• Cash received in lieu of fractional shares of stock as a result of a stock split or stock dividend. See Pub. 550.
• Mutual fund load charges, which may not be taken into account in determining gain or loss on certain dispositions of stock in mutual funds if reinvestment rights were exercised. See Pub. 564.
The sale or exchange of S corporation stock or an interest in a trust held for more than 1 year which may result in collectibles gain (28% rate gain). See page D-7.


Certain constructive ownership transactions. Gain in excess of the gain you would have recognized if you had held a financial asset directly for the term of a derivative contract must be treated as ordinary income. See section 1260. If any portion of the constructive ownership transaction was open in any prior year, you may have to pay interest. See section 1260(b) for information on how to figure the interest. Include the interest as an additional tax on Form 1040, line 62. Write “Section 1260(b) interest” and the amount of the interest to the left of line 62. This interest is not deductible.

The sale of publicly traded securities, if you elect to postpone gain by purchasing common stock or a partnership interest in a specialized small business investment company during the 60-day period that began on the date of the sale. See Pub. 550.

The sale of qualified securities, held for at least 3 years, to an employee stock ownership plan or eligible worker-owned cooperative, if you elect to postpone gain by purchasing qualified replacement property. See Pub. 550.

Gain or loss on the disposition of stock or other securities in an investment club. See Pub. 550.

Wash Sales
A wash sale occurs when you sell or otherwise dispose of stock or securities (including a contract or option to acquire or sell stock or securities) at a loss and, within 30 days before or after sale or disposition, you directly or indirectly:
- Buy substantially identical stock or securities.
- Acquire substantially identical stock or securities in a fully taxable trade, or
- Enter into a contract or option to acquire substantially identical stock or securities.

You cannot deduct losses from wash sales unless the loss was incurred in the ordinary course of your business as a dealer in stock or securities. The basis of the substantially identical property (or contract or option to acquire such property) is its cost increased by the disallowed loss. For more details on wash sales, see Pub. 550.

Report a wash sale transaction on line 1 or 3. Enter the full amount of the (loss) in column (f). Directly below the line on which you reported the loss, enter “Wash Sale” in column (a), and enter as a positive amount in column (f) the amount of the loss not allowed.

Traders in Securities
You are a trader in securities if you are engaged in the business of buying and selling securities for your own account. To be engaged in business as a trader in securities:
- You must seek to profit from daily market movements in the prices of securities and not from dividends, interest, or capital appreciation.
- Your activity must be substantial.
- You must carry on the activity with regularity and continuity.

The following facts and circumstances should be considered in determining if your activity is a business:
- Typical holding periods for securities bought and sold.
- The frequency and dollar amount of your trades during the year.
- The extent to which you pursue the activity to produce income for a livelihood.
- The amount of time you devote to the activity.

You are considered an investor, and not a trader, if your activity does not meet the above definition of a business. It does not matter whether you call yourself a trader or a "day trader.”

Like an investor, a trader must report each sale of securities (taking into account commissions and any other costs of acquiring or disposing of the securities) on Schedule D or D-1 or on an attached statement containing all the same information for each sale in a similar format. However, if a trader previously made the mark-to-market election (see below), each transaction is reported in Part II of Form 4797 instead of Schedules D and D-1. Regardless of whether a trader reports his or her gains and losses on Schedules D and D-1 or Form 4797, the gain or loss from the disposition of securities is not taken into account when figuring net earnings from self-employment on Schedule SE. See the Instructions for Schedule SE for an exception to the rules in section 1256 contracts.

The limitation on investment interest expense that applies to investors does not apply to interest paid or incurred in a trading business. A trader reports interest expense and other expenses (excluding commissions and other costs of acquiring or disposing of securities) from a trading business on Schedule C (instead of Schedule A).

A trader also may hold securities for investment. The rules for investors generally will apply to those securities. Allocate interest and other expenses between your trading business and your investment securities.

Mark-To-Market Election for Traders
A trader may make an election under section 475(f) to report all gains and losses from securities held in connection with a trading business as ordinary income (or loss), including securities held at the end of the year. Securities held at the end of the year are “marked to market” by treating them as if they were sold (and reacquired) for fair market value on the last business day of the year. Generally, the election must be made by the due date (not including extensions) of the tax return for the year prior to the year for which the election becomes effective. To be effective for 2004, the election must have been made by April 15, 2004.

Starting with the year the election becomes effective, a trader reports all gains and losses from securities held in connection with the trading business, including securities held at the end of the year, in Part II of Form 4797. If you previously made the election, see the Instructions for Form 4797. For details on making the mark-to-market election for 2005, see Pub. 550 or Rev. Proc. 99-17, 1999-1 C.B. 503.

Wash Sales
A wash sale is a contract to sell property you borrowed for delivery to a buyer. At a later date, you either buy substantially identical property and deliver it to the lender or deliver property that you held but did not want to transfer at the time of the sale. Usually, your holding period is the amount of time you actually held the property eventually delivered to the lender to close the short sale. However, your gain when closing a short sale is short term if you (a) held substantially identical property for 1 year or less on the date of the short sale or (b) acquired property substantially identical to the property sold short after the short sale but on or before the date you close the short sale. If you held substantially identical property for more than 1 year on the date of a short sale, any loss realized on the short sale is long-term capital loss, even if the property used to close the short sale was held 1 year or less.

Gain or Loss From Options
Report on Schedule D gain or loss from the closing or expiration of an option that is not a section 1256 contract but is a capital asset in your hands. If an option you purchased expired, enter the expiration date in column (c) and enter “EXPIRED” in column (d). If an option that was granted (written) expired, enter the expiration date in column (b) and enter “EXPIRED” in column (c). Fill in the other columns as appropriate. See Pub. 550 for details.

Undistributed Capital Gains
Include on line 11 the amount from box 1a of Form 2439. This represents your share of the undistributed long-term capital gains of the regulated investment company (including a mutual fund) or real estate investment trust.

If there is an amount in box 1b, include that amount on line 11 of the Unrecaptured Section 1250 Gain Worksheet on page D-8 if you complete line 19 of Schedule D.
If there is an amount in box 1c, see Ex-
cclusion of Gain on Qualified Small Busi-
ness (QSB) Stock on this page.
If there is an amount in box 1d, include 
that amount on line 4 of the 28% Rate Gain 
Worksheet on page D-7 if you complete 
line 18 of Schedule D.

Gain from an installment sale of QSB 
stock. If all payments are not received 
at the time you sold the stock, you held 
the equity interest for 1 year or less, report the gain as a short-term capital 
gain on line 1.

If the demutualization transaction do-
not qualify as a tax-free reorganization, 
you must recognize a capital gain in an 
amount equal to the cash and fair market value of 
the stock received. If you held the equity 
interest for more than 1 year, report the 
gain as a long-term capital gain on line 8. If 
you held the equity interest for 1 year or 
less, report the gain as a short-term capital 
gain on line 1. Your holding period for the 
new stock begins on the day after you re-
ceived the stock.

Exclusion of Gain on 
Qualified Small Business 
(QSB) Stock
Section 1202 allows for an exclusion of up 
to 50% of the eligible gain on the sale or 
exchange of QSB stock. The section 1202 
exclusion applies only to QSB stock held 
for more than 5 years.

TIP
SSBIC. A specialized small 
business investment company 
(SSBIC) is treated as having 
made the test 5b above.

Qualified Business
A qualified business is any business that
• is not one of the following:
  • A business involving services per-
  formed in the fields of health, law, 
engineering, architecture, accounting, 
artificial science, performing arts, 
consulting, athletic 
esecurities, or brokerage serv-
ices.

A business whose principal asset is
the reputation or skill of one or more 
employees.

A banking, insurance, financing, leasing,
investing, or similar business.

A farming business (including the
raising or harvesting of trees).

A business involving the production 
of products for which percentage depletion 
can be claimed.

A business of operating a hotel, motel, 
restaurant, or similar business.

For more details about limits and addi-
tional requirements that may apply, see 
section 1202.

Pass-Through Entities
If you held an interest in a pass-through en-
tity (a partnership, S corporation, or mutual 
fund or other regulated investment com-
pany) that sold QSB stock, to qualify for 
the exclusion you must have held the inter-
est on the date the pass-through entity ac-
quired the QSB stock and at all times 
thereafter until the stock was sold.

How To Report
Report on line 8 the entire gain realized 
on the sale of QSB stock. Complete all col-
umns as indicated. Directly below the line 
on which you reported the gain, enter in 
column (a) “Section 1202 exclusion” and 
in column (f) the amount of your allow-
able exclusion on line 2 of the 28% Rate 
Gain Worksheet on page D-7.

Gain from Form 1099-DIV.
If you re-
ceived a Form 1099-DIV with a gain in box 
2c, part or all of that gain (which is also 
cluded in box 2a) may be eligible for the 
section 1202 exclusion. In column (a) of 
line 8, enter the name of the corporation 
whose stock was sold. In column (f), enter 
the amount of your allowable exclusion as 
a loss. If you are completing line 18 of 
Schedule D, enter as a positive number the 
amount of your allowable exclusion on line 
2 of the 28% Rate Gain Worksheet on page 
D-7.

Gain from Form 2439.
If you received 
a Form 2439 with a gain in box 1c, part 
or all of that gain (which is also included in 
box 1a) may be eligible for the section 1202 ex-
closure. In column (a) of line 8, enter the 
name of the corporation whose stock was 
sold. In column (f), enter the amount of 
your allowable exclusion as a loss. If you 
are completing line 18 of Schedule D, enter 
as a positive number the amount of your 
allowable exclusion on line 2 of the 28% 
Rate Gain Worksheet on page D-7.

Gain from an installment sale of QSB 
stock. If all payments are not received 
in the year of sale, a sale of QSB stock that 
is not traded on an established securities mar-
ket generally is treated as an installment 
sale and is reported on Form 6252. Figure 
the allowable section 1202 exclusion for 
the year by multiplying the total amount of 
the exclusion by a fraction, the numerator 
of which is the amount of eligible gain to be 
recognized for the tax year and the denomi-
nator of which is the total amount of eligi-
Rollover of Gain From QSB Stock

If you sold QSB stock (defined on page D-4) that you held for more than 6 months, you may elect to postpone gain if you purchased other QSB stock during the 60-day period that began on the date of the sale. A pass-through entity also may make the election to postpone gain. The benefit of the postponed gain applies to your share of the entity’s postponed gain if you held an interest in the entity for the entire period the entity held the QSB stock. If a pass-through entity sold QSB stock held for more than 6 months and you held an interest in the entity for the entire period the entity held the stock, you also may elect to postpone gain if you, rather than the pass-through entity, purchase the replacement QSB stock within the 60-day period.

You must recognize gain to the extent the sale proceeds exceed the cost of the replacement stock. Reduce the basis of the replacement stock by any postponed gain. You must make the election no later than the due date (including extensions) for filing your tax return for the tax year in which the QSB stock was sold. If your original return was filed on time, you may make an election on an amended return filed on or before the due date of your return (excluding extensions). Write “Filed pursuant to section 305/310-z” at the top of the amended return.

To make the election, report the entire gain realized on the sale on line 1 or 8. Directly below the line on which you reported the gain, enter in column (a) “Section 1045 rollover,” and enter the amount of the postponed gain as a (loss) in column (f).

Rollover of Gain From Empowerment Zone Assets

If you sold a qualified empowerment zone asset that was held for more than 1 year, you may be able to elect to postpone part or all of the gain that you would otherwise include on Schedule D. If you make the election, the gain on the sale generally is recognized only to the extent, if any, that the attributable gain in the sale exceeds the cost of qualified empowerment zone assets (replacement property) you purchased during the 60-day period beginning on the date of the sale. The following rules apply.

• No portion of the cost of the replacement property may be taken into account to the extent the cost is taken into account to exclude gain on a different empowerment zone asset.

• The replacement property must qualify as an empowerment zone asset with respect to the same empowerment zone as the asset sold.

• You must reduce the basis of the replacement property by the amount of postponed gain.

• This election does not apply to any gain (a) treated as ordinary income or (b) attributable to real property, or an intangible asset, which is not an integral part of an enterprise zone business.

• The District of Columbia enterprise zone is not treated as an empowerment zone for this purpose.

• The election is irrevocable without IRS consent.

See Pub. 954 for the definition of empowerment zone and enterprise zone businesses. You can find out if your business is located within an empowerment zone by using the RCE/EZ/EC Address Locator at www.hud.gov/crlocator.

Qualified empowerment zone assets are:

1. Tangible property, if:
   a. You acquired the property after December 21, 2000,
   b. The original use of the property in the empowerment zone began with you, and
   c. Substantially all of the use of the property, during substantially all of the time that you held it, was in your empowerment zone business; and

2. Stock in a domestic corporation or a capital or profits interest in a domestic partnership, if:
   a. You acquired the stock or partnership interest after December 21, 2000, solely in exchange for cash, from the corporation at its original issue (directly or through an underwriter) or from the partnership;
   b. The business was an enterprise zone business (or a new business being organized as an enterprise zone business) as of the time you acquired the stock or partnership interest; and
   c. The business qualified as an enterprise zone business during substantially all of the time during which you held the stock or partnership interest.

How to report. Report the entire gain realized from the sale as you otherwise would without regard to the election. On Schedule D, line 8, enter “Section 1397B Rollover” in column (a) and enter as a loss in column (f) the amount of gain included on Schedule D that you are electing to postpone. If you are reporting the sale directly on Schedule D, line 8, use the line directly below the line on which you are reporting the sale.

See section 1397B for more details.

Exclusion of Gain From DC Zone Assets

If you sold or exchanged a District of Columbia Enterprise Zone (DC Zone) asset that you held for more than 5 years, you may be able to exclude the amount of qualified capital gain that you would otherwise include on Schedule D. The exclusion applies to an interest in, or property of, certain businesses operating in the District of Columbia.

DC Zone asset. A DC Zone asset is any of the following:

• DC Zone business stock.
• DC Zone partnership interest.
• DC Zone business property.

Qualified capital gain. Qualified capital gain is any gain recognized on the sale or exchange of a DC Zone asset that is a capital asset or property used in a trade or business. It does not include any of the following gains:

• Gain treated as ordinary income under section 1245.
• Section 1250 gain figured as if section 1250 applied to all depreciation rather than the additional depreciation.
• Gain attributable to real property, or an intangible asset, that is not an integral part of a DC Zone business.
• Gain from a related-party transaction.

See Sales and Exchanges Between Related Persons in chapter 2 of Pub. 544.

Specific Instructions

Lines 1 and 8

Enter all sales and exchanges of capital assets, including stocks, bonds, etc., and real estate (if not reported on Form 4684, 4797, 6252, 6781, or 8824). But do not report the sale or exchange of your main home unless required (see page D-2). Include these transactions even if you did not receive a substitute statement that you are not reporting on another form or schedule included with your return: (a) proceeds from transactions involving stocks, bonds, and other securities and (b) gross proceeds from real estate transactions (other than the
Use this worksheet to figure your capital loss carryovers from 2003 to 2004 if your 2003 Schedule D, line 18, is a loss and (a) that loss is a smaller loss than the loss on your 2003 Schedule D, line 17a, or (b) your 2003 Form 1040, line 38, is a loss. Otherwise, you do not have any carryovers.

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>1.</td>
<td>Enter the amount from your 2003 Form 1040, line 38. If a loss, enclose the amount in parentheses.</td>
</tr>
<tr>
<td>2.</td>
<td>Enter the loss from your 2003 Schedule D, line 18, as a positive amount.</td>
</tr>
<tr>
<td>3.</td>
<td>Combine lines 1 and 2. If zero or less, enter -0-.</td>
</tr>
<tr>
<td>4.</td>
<td>Enter the smaller of line 2 or line 3.</td>
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<tr>
<td>5.</td>
<td>Enter the loss from your 2003 Schedule D, line 7b, as a positive amount.</td>
</tr>
<tr>
<td>6.</td>
<td>Enter any gain from your 2003 Schedule D, line 16.</td>
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<tr>
<td>7.</td>
<td>Add lines 4 and 6.</td>
</tr>
<tr>
<td>8.</td>
<td>Subtract line 7 from line 5. If zero or less, enter -0-.</td>
</tr>
<tr>
<td>9.</td>
<td>Enter the loss from your 2003 Schedule D, line 16, as a positive amount.</td>
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<tr>
<td>10.</td>
<td>Enter any gain from your 2003 Schedule D, line 7b.</td>
</tr>
<tr>
<td>11.</td>
<td>Subtract line 5 from line 4. If zero or less, enter -0-.</td>
</tr>
<tr>
<td>12.</td>
<td>Add lines 10 and 11.</td>
</tr>
<tr>
<td>13.</td>
<td>Subtract line 12 from line 9. If zero or less, enter -0-.</td>
</tr>
</tbody>
</table>

If line 16 of your 2003 Schedule D is a loss, go to line 9; otherwise, skip lines 9 through 13.

If your 2003 Schedule D, line 7b, is a loss, go to line 8; otherwise, enter -0- on line 5 and go to line 9.

If line 7b of your 2003 Schedule D is a loss, go to line 5; otherwise, enter -0- on line 5 and go to line 9.

If you elected to recognize gain on an asset sold on January 1, 2001, your basis in the asset is its closing market price or fair market value, whichever applies, on the date of the deemed sale and reacquisition, whether the deemed sale resulted in a gain or an unallowed loss.

You may elect to use an average basis for all shares of a mutual fund if you acquired the shares at various times and prices and you left the shares on deposit in an account handled by a custodian or agent who acquired or redeemed those shares. If you are reporting an average basis, include ‘AVGB’ in column (a) of Schedule D. For details on making the election and how to figure average basis, see Pub. 564.

The basis of property acquired by gift is generally the basis of the property in the hands of the donor. The basis of property acquired from a decedent is generally the fair market value at the date of death. See Pub. 551 for details.

Increase the cost or other basis of an original issue discount (OID) debt instrument by the amount of OID that has been included in gross income for that instrument. See Pub. 550 for details.

If a charitable contribution deduction is allowed because of a bargain sale of property to a charitable organization, the adjusted basis for purposes of determining gain from the sale is the amount that has the same ratio to the adjusted basis as the amount realized has to the fair market value. See Pub. 544 for details.

Increase your cost or other basis by any expense of sale, such as broker’s fees, commissions, state and local transfer taxes, and option premiums, before making an entry in column (e), unless you reported the net sales price in column (d).

For more details, see Pub. 551.
Column (f)—Gain or (Loss)
You must make a separate entry in this column for each transaction reported on lines 1 and 8 and any other line(s) that applies to you. For lines 1 and 8, subtract the amount in column (e) from the amount in column (d). Enter negative amounts in parentheses.

Line 18
If you checked “Yes” on line 17, complete the worksheet below if either of the following apply for 2004.

- You reported in Part II a section 1202 exclusion from the eligible gain on qualified small business stock (see page D-4), or
- You reported in Part II a collectibles gain or (loss). A collectibles gain or (loss) is any long-term gain or deductible long-term loss from the sale or exchange of a collectible that is a capital asset.

Collectibles include works of art, rugs, antiques, metals (such as gold, silver, and platinum bullion), gems, stamps, coins, alcohols, beverages, and certain other tangible property.

Include on the worksheet any gain (but not loss) from the sale or exchange of an interest in a partnership, S corporation, or trust held for more than 1 year and attributable to unrealized appreciation of collectibles. For details, see Regulations section 1.1(h)-1. Also, attach the statement required under Regulations section 1.1(h)-1(e).

Line 19
If you checked “Yes” on line 17, complete the worksheet on page D-8 if any of the following apply for 2004.

- You sold or otherwise disposed of section 1250 property (generally, real property that you depreciated) held more than 1 year.
- You received installment payments for section 1250 property held more than 1 year for which you are reporting gain on the installment method.

- You received a Schedule K-1 from an estate or trust, partnership, or S corporation that shows “unrecaptured section 1250 gain.”
- You received a Form 1099-DIV or Form 2439 from a real estate investment trust or regulated investment company (including a mutual fund) that reports “unre- captured section 1250 gain.”
- You reported a long-term capital gain from the sale or exchange of an interest in a partnership that owned section 1250 property.

Instructions for the Unrecaptured Section 1250 Gain Worksheet
Lines 1 through 3. If you had more than one property described on line 1, complete lines 1 through 3 for each property on a separate worksheet. Enter the total of the line 3 amounts for all properties on line 3 and go to line 4.

Line 4. To figure the amount to enter on line 4, follow the steps below for each installment sale of trade or business property held more than 1 year.

Step 1. Figure the smaller of (a) the deprecation allowed or allowable or (b) the total gain for the sale. This is the smaller of line 22 or line 24 of your 2004 Form 4797 (or the comparable lines of Form 4797 for the year of sale) for the property.

Step 2. Reduce the amount figured in step 1 by any section 1250 ordinary income recapture for the sale. This is the amount from line 26 of your 2004 Form 4797 (or the comparable line of Form 4797 for the year of sale) for the property. The result is your total unrecaptured section 1250 gain that must be allocated to the installment payments received from the sale.

Step 3. Generally, the amount of section 1231 gain on each installment payment is treated as unrecaptured section 1250 gain until the total unrecaptured section 1250 gain figured in step 2 has been used in full.

Figure the amount of gain treated as unre- captured section 1250 gain for installment payments received in 2004 as the smaller of (a) the amount from line 26 or line 37 of your 2004 Form 6252, whichever applies, or (b) the amount of unrecaptured section 1250 gain remaining to be reported. This amount is generally the total unrecaptured section 1250 gain for the sale reduced by all gain reported in prior years (excluding sec- tion 1250 ordinary income recapture). However, if you chose not to treat all of the gain from payments received after May 6, 1997, and before August 24, 1999, as unre- captured section 1250 gain, use only the amount you chose to treat as unrecaptured section 1250 gain for those payments to re- duce the total unrecaptured section 1250 gain remaining to be reported for the sale. Include this amount on line 4.

Line 10. Include on line 10 your share of the partnership’s unrecaptured section 1250 gain that would result if the partner- ship had transferred all of its section 1250 property in a fully taxable transaction immediately before you sold or exchanged your interest in that partnership. If you rec-ognized less than all of the realized gain, the partnership will be treated as having transferred only a proportionate amount of each section 1250 property. For details, see Regulations section 1.1(h)-1(e).

28% Rate Gain Worksheet—Line 18
Keep for Your Records

<table>
<thead>
<tr>
<th>Instruction</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Enter the total of all collectibles gain or (loss) from items you reported on line 8, column (f), of Schedules D and D-1.</td>
</tr>
<tr>
<td>2.</td>
<td>Enter as a positive number the amount of any section 1202 exclusion you reported on line 8, column (f), of Schedules D and D-1.</td>
</tr>
<tr>
<td>3.</td>
<td>Enter the total of all collectibles gain or (loss) from Form 4684, line 4 (but only if Form 4684, line 15, is more than zero); Form 6252; Form 6781, Part II; and Form 8824.</td>
</tr>
<tr>
<td>4.</td>
<td>Enter the total of any collectibles gain reported to you on:</td>
</tr>
<tr>
<td></td>
<td>• Form 1099-DIV, box 2d;</td>
</tr>
<tr>
<td></td>
<td>• Form 2439, box 1d; and</td>
</tr>
<tr>
<td></td>
<td>• Schedule K-1 from a partnership, S corporation, estate, or trust.</td>
</tr>
<tr>
<td>5.</td>
<td>Enter your long-term capital loss carryovers from Schedule D, line 14, and Schedule K-1 (Form 1041), line 13c.</td>
</tr>
<tr>
<td>6.</td>
<td>Enter Schedule D, line 7, as a (loss), enter that (loss) here. Otherwise, enter 0-.</td>
</tr>
<tr>
<td>7.</td>
<td>Combine lines 1 through 6. If zero or less, enter 0-. If more than zero, also enter this amount on Schedule D, line 18.</td>
</tr>
</tbody>
</table>
follow the applicable instructions below.

Installment sales. To figure the amount to include on line 12, follow the steps below for each installment sale of property held more than 1 year for which you did not make an entry in Part I of your Form 4797 for the year of sale.

- Step 1. Figure the smaller of (a) the depreciation allowed or allowable or (b) the total gain for the sale. This is the smaller of line 22 or line 24 of your 2004 Form 4797 (or the comparable lines of Form 4797 for the year of sale) for the property.
- Step 2. Reduce the amount figured in step 1 by any section 1250 ordinary income recapture for the sale. This is the amount from line 26g of your 2004 Form 4797 (or the comparable line of Form 4797 for the year of sale) for the property. The result is your total unrecaptured section 1250 gain that must be allocated to the installment payments received from the sale.
- Step 3. Generally, the amount of capital gain on each installment payment is line 24 of Form 4797 for the property. You will need a copy of your Form 4797 for the year of sale. This is the amount from line 26g of your 2004 Form 4797 for the year of sale (see instructions).

To figure the amount treated as unrecaptured section 1250 gain, use only the amount you chose to treat as unrecaptured section 1250 gain for those payments to reduce the total unrecaptured section 1250 gain remaining to be reported for the sale. Include this amount on line 12.

Other sales or dispositions of section 1250 property. For each sale of property held more than 1 year (for which you did not make an entry in Part I of Form 4797), figure the smaller of (a) the depreciation allowed or allowable or (b) the total gain from payments received from the sale. This is the smaller of line 22 or line 24 of Form 4797 for the property. Next, reduce that amount by any section 1250 ordinary income recapture for the sale. The result is the total unrecaptured section 1250 gain for the sale. Include this amount on line 12.

Limit on capital losses. For 2004, you may deduct capital losses up to the amount of your capital gains plus $3,000 ($1,500 if married filing separately). Enter on line 21 the smaller of (a) the loss on line 16 or (b) ($3,000), or if married filing separately, ($1,500). When figuring which amount is smaller, treat both amounts as positive numbers.

Capital loss carryover.

You have a capital loss carryover from 2004 to 2005 if you have a loss on line 16 and either:

- That loss is more than the loss on line 21, or
- Form 1040, line 40, is less than zero.

To figure any capital loss carryover to 2005, you will use the Capital Loss Carryover Worksheet in the 2005 Instructions for Schedule D. If you want to figure your carryover now, see Pub. 550.

TIP

You will need a copy of your 2004 Form 1040 and Schedule D to figure your capital loss carryover to 2005.

Unrecaptured Section 1250 Gain Worksheet—Line 19

If you are not reporting a gain on Form 4797, line 7, skip lines 1 through 9 and go to line 10.

1. If you have a section 1250 property in Part III of Form 4797 for which you made an entry in Part I of Form 4797 (but not on Form 6252), enter the smaller of line 22 or line 24 of Form 4797 for that property. If you did not have any such property, go to line 4. If you had more than one such property, see instructions.

2. Enter the amount from Form 4797, line 26g, for the property for which you made an entry on line 1.

3. Subtract line 2 from line 1.

4. Enter the total unrecaptured section 1250 gain included on line 26 or line 37 of Form(s) 6252 from installment sales of trade or business property held more than 1 year (see instructions).

5. Enter the total of any amounts reported to you on a Schedule K-1 from a partnership or an S corporation as “unrecaptured section 1250 gain”.

6. Add lines 3 through 5.

7. Enter the smaller of line 6 or the gain from Form 4797, line 7.

8. Enter the amount, if any, from Form 4797, line 8.

9. Subtract line 8 from line 7. If zero or less, enter -0-.

10. Enter the amount of any gain from the sale or exchange of an interest in a partnership attributable to unrecaptured section 1250 gain (see instructions).

11. Enter the total of any amounts reported to you on a Schedule K-1, Form 1099-DIV, or Form 2439 as “unrecaptured section 1250 gain” from an estate, trust, real estate investment trust, or mutual fund (or other regulated investment company).

12. Enter the total of any unrecaptured section 1250 gain from sales (including installment sales) or other dispositions of section 1250 property held more than 1 year for which you did not make an entry in Part I of Form 4797 for the year of sale (see instructions).

13. Add lines 9 through 12.

14. If you had any section 1202 gain or collectibles gain or (loss), enter the total of lines 1 through 4 of the 28% Rate Gain Worksheet on page D-7. Otherwise, enter -0-.

15. Enter the (loss), if any, from Schedule D, line 7. If Schedule D, line 7, is zero or a gain, enter -0-.

16. Enter your long-term capital loss carryovers from Schedule D, line 14, and Schedule K-1 (Form 1041), line 13c.

17. Combine lines 14 through 16. If the result is a (loss), enter it as a positive amount. If the result is zero or a gain, enter -0-.

18. Unrecaptured section 1250 gain. Subtract line 17 from line 13. If zero or less, enter -0-. If more than zero, enter the result here and on Schedule D, line 19.
### Schedule D Tax Worksheet

Complete this worksheet only if line 18 or line 19 of Schedule D is more than zero. Otherwise, complete the Qualified Dividends and Capital Gain Tax Worksheet on page 34 of the Instructions for Form 1040 to figure your tax.

**Exception:** Do not use the Qualified Dividends and Capital Gain Tax Worksheet or this worksheet to figure your tax if:
- Line 15 or line 16 of Schedule D is zero or less and you have no qualified dividends on Form 1040, line 9b, or
- Form 1040, line 42, is zero or less.

Instead, see the instructions for Form 1040, line 43.

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Enter your taxable income from Form 1040, line 42.</td>
</tr>
<tr>
<td>2.</td>
<td>Enter your qualified dividends from Form 1040, line 9b.</td>
</tr>
<tr>
<td>3.</td>
<td>Enter the amount from Form 4952, line 4g.</td>
</tr>
<tr>
<td>4.</td>
<td>Subtract line 4 from line 3. If zero or less, enter -0-.</td>
</tr>
<tr>
<td>5.</td>
<td>Subtract line 5 from line 2. If zero or less, enter -0-.</td>
</tr>
<tr>
<td>6.</td>
<td>Enter the smaller of line 15 or line 16 of Schedule D.</td>
</tr>
<tr>
<td>7.</td>
<td>Subtract line 8 from line 7. If zero or less, enter -0-.</td>
</tr>
<tr>
<td>8.</td>
<td>Add lines 6 and 9.</td>
</tr>
<tr>
<td>9.</td>
<td>Add lines 18 and 19 of Schedule D.</td>
</tr>
<tr>
<td>10.</td>
<td>Subtract line 10 from line 9. If zero or less, enter -0-.</td>
</tr>
</tbody>
</table>

**If lines 15 and 16 are the same, skip lines 21 through 33 and go to line 34. Otherwise, go to line 21.**

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>11.</td>
<td>Subtract line 12 from line 10. If zero or less, enter -0-.</td>
</tr>
<tr>
<td>12.</td>
<td>Subtract line 13 from line 1. If zero or less, enter -0-.</td>
</tr>
<tr>
<td>13.</td>
<td>Enter the smaller of:</td>
</tr>
<tr>
<td></td>
<td>- The amount on line 1 or</td>
</tr>
<tr>
<td></td>
<td>- $29,050 if single or married filing separately;</td>
</tr>
<tr>
<td></td>
<td>$58,100 if married filing jointly or qualifying widow(er); or</td>
</tr>
<tr>
<td></td>
<td>$38,900 if head of household.</td>
</tr>
<tr>
<td>14.</td>
<td>If Schedule D, line 19, is zero or blank, skip lines 25 through 30 and go to line 31. Otherwise, go to line 25.</td>
</tr>
<tr>
<td>15.</td>
<td>Enter the smaller of line 9 above or Schedule D, line 19.</td>
</tr>
<tr>
<td>16.</td>
<td>Subtract line 16 from line 15.</td>
</tr>
<tr>
<td>17.</td>
<td>Multiply line 19 by 5% (.05).</td>
</tr>
<tr>
<td>18.</td>
<td>Add lines 10 through 19.</td>
</tr>
<tr>
<td>19.</td>
<td>Enter the amount from line 1 above.</td>
</tr>
<tr>
<td>20.</td>
<td>Subtract line 21 from line 20. If zero or less, enter -0-.</td>
</tr>
<tr>
<td>21.</td>
<td>Enter the smaller of line 1 or line 13.</td>
</tr>
<tr>
<td>22.</td>
<td>Enter the amount from line 19 (if line 19 is blank, enter -0-).</td>
</tr>
<tr>
<td>23.</td>
<td>Subtract line 22 from line 21. If zero or less, enter -0-.</td>
</tr>
<tr>
<td>24.</td>
<td>Multiply line 23 by 15% (.15).</td>
</tr>
<tr>
<td>25.</td>
<td>If Schedule D, line 1, is zero or blank, skip lines 25 through 30 and go to line 31. Otherwise, go to line 25.</td>
</tr>
<tr>
<td>26.</td>
<td>Enter the smaller of line 9 above or Schedule D, line 19.</td>
</tr>
<tr>
<td>27.</td>
<td>Subtract line 26 from line 25. If zero or less, enter -0-.</td>
</tr>
</tbody>
</table>

**If Schedule D, line 18, is zero or blank, skip lines 31 through 33 and go to line 34. Otherwise, go to line 31.**

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>29.</td>
<td>Subtract line 28 from line 27. If zero or less, enter -0-.</td>
</tr>
<tr>
<td>30.</td>
<td>Multiply line 29 by 28% (.28).</td>
</tr>
<tr>
<td>31.</td>
<td>Add lines 18, 19, 23, and 29.</td>
</tr>
<tr>
<td>32.</td>
<td>Subtract line 31 from line 1.</td>
</tr>
<tr>
<td>33.</td>
<td>Multiply line 32 by 28% (.28).</td>
</tr>
<tr>
<td>34.</td>
<td>Figure the tax on the amount on line 18. Use the Tax Table or Tax Computation Worksheet, whichever applies.</td>
</tr>
<tr>
<td>35.</td>
<td>Add lines 20, 24, 30, 33, and 34.</td>
</tr>
<tr>
<td>36.</td>
<td>Figure the tax on the amount on line 1. Use the Tax Table or Tax Computation Worksheet, whichever applies.</td>
</tr>
<tr>
<td>37.</td>
<td>Tax on all taxable income (including capital gains and qualified dividends). Enter the smaller of line 35 or line 36. Also include this amount on Form 1040, line 43.</td>
</tr>
</tbody>
</table>

*If applicable, enter instead the smaller amount you entered on the dotted line next to line 4e of Form 4952.*