2016
Instructions for Schedule D (Form 1120)

Capital Gains and Losses

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

Future Developments

For the latest information about developments to Schedule D (Form 1120) and its instructions, such as legislation enacted after they were published, go to www.irs.gov/form1120.

What’s New

Alternative tax for corporations with qualified timber gain. For tax years beginning in 2016, if a corporation has both a net capital gain and a qualified timber gain, a maximum 23.8% alternative tax may apply to the qualified timber gain. Use new Part IV to figure the alternative tax. See the instructions for Part IV.

Form 1099-B. A Form 1099-B (or substitute statement) for transactions involving certain types of debt instruments or options acquired after 2015 will have more detailed information than in previous years. This includes transactions involving convertible debt instruments, variable rate debt instruments, inflation-indexed debt instruments, contingent payment debt instruments, options on debt instruments with payments denominated in (or determined by reference to) a currency other than the U.S. dollar, and options issued as part of investment units. See the instructions for Form 8949 for information on including amounts reported to the corporation on Form 8949 and Schedule D.

General Instructions

Purpose of Schedule

Use Schedule D to:
• Figure the overall gain or loss from transactions reported on Form 8949;
• Report certain transactions the corporation does not have to report on Form 8949; and
• Report capital gain distributions not reported directly on Form 1120, line 8 (or effectively connected capital gain distributions not reported directly on Form 1120-F, 1120-C, 1120-H, or all other related forms).

Who Must File


Other Forms the Corporation May Have To File

Use Form 8949 to report:
• Sales or exchanges of capital assets (defined later) not reported on another form or schedule;
• Nonbusiness bad debts;
• Undistributed long-term capital gains from Form 2439;
• Worthlessness of a security; and
• The corporation's share of gain or loss from a partnership, S corporation, estate, or trust.

Complete all applicable lines of Form 8949 before completing line 1b, 2, 3, 8b, 9, or 10 of Schedule D (Form 1120). See the instructions for Form 8949 for special provisions and exceptions to completing Form 8949 for certain corporations. Also, see the instructions for Lines 1a and 8a, later, for more information about when to use Form 8949.

Use Form 4797, Sales of Business Property, to report the following.
• The sale or exchange of:
  1. Real property used in a trade or business;
  2. Depreciable and amortizable tangible property used in a trade or business (however, see Disposition of Depreciable Property Not Used in Trade or Business in the Instructions for Form 4797);
  3. Oil, gas, geothermal, or other mineral property; and
  4. Section 126 property.
• The involuntary conversion (other than from casualty or theft) of property and capital assets held more than 1 year for business or profit (however, see Disposition of Depreciable Property Not Used in Trade or Business in the Instructions for Form 4797).

• The disposition of noncapital assets other than inventory or property held primarily for sale to customers in the ordinary course of the corporation’s trade or business. See the instructions for Form 475(f).

Use Form 4684, Casualties and Thefts, to report involuntary conversions of property due to casualty or theft.

Use Form 6781, Gains and Losses From Section 1256 Contracts and Straddles, to report gains and losses from section 1256 contracts and straddles.

Use Form 8824, Like-Kind Exchanges, if the corporation made one or more “like-kind” exchanges. A like-kind exchange occurs when the corporation exchanges business or investment property for property of a like kind. For exchanges of capital assets, include the gain or (loss) from Form 8824, if any, on Schedule D (Form 1120), line 5 or line 13, as applicable.

Additional information. For more information, see Pub. 544, Sales and Other Dispositions of Assets, and Pub. 550, Investment Income and Expenses (Including Capital Gains and Losses).

Capital Assets

Each item of property the corporation held (whether or not connected with its trade or business) is a capital asset except the following. See section 1221(a).
• Stock in trade or other property included in inventory or held mainly for sale to customers. However, see the Note below.
• Accounts or notes receivable acquired in the ordinary course of the trade or business for services rendered or from the sale of stock in trade or other
property included in inventory or held mainly for sale to customers.

- Depreciable or real property used in the trade or business, even if it is fully depreciated.
- Certain copyrights; literary, musical, or artistic compositions; letters or memoranda; or similar property.

However, see the Note below.

- U.S. Government publications, including the Congressional Record, that the corporation received from the Government, other than by purchase at the normal sales price, or that the corporation got from another taxpayer who had received it in a similar way, if the corporation's basis is determined by reference to the previous owner's basis.
- Certain commodities derivative financial instruments held by a dealer in connection with its dealer activities.
- Certain identified hedging transactions entered into in the normal course of the trade or business.
- Supplies regularly used in the trade or business.

Note. The corporation can elect to treat as capital assets certain musical compositions or copyrights it sold or exchanged. See section 1221(b)(3) and Pub. 550 for details.

Capital Losses

For a corporation, capital losses are allowed in the current tax year only to the extent of capital gains. A net capital loss is carried back 3 years and forward up to 5 years as a short-term capital loss. Carry back a capital loss to the extent of capital gains. A net capital loss of a regulated investment company (RIC) incurred in the tax year to which it is carried. Foreign expropriation of a capital loss in the tax year to which it is carried.

Note. The corporation can elect to treat as capital assets certain musical compositions or copyrights it sold or exchanged. See section 1221(b)(3) and Pub. 550 for details.

Gain on distributions of appreciated property. Generally, if the corporation sold a qualified empowerment zone asset held for more than 1 year, it may be able to elect to postpone part or all of the gain that it would otherwise include in income. See section 1397B(b)(1) for the definition of a qualified empowerment zone asset. If the corporation makes the election, the gain on the sale generally is recognized only to the extent, if any, that the amount realized on the sale exceeds the cost of qualified empowerment zone assets (replacement property) the corporation purchased during the 60-day period beginning on the date of the sale. For more information, see section 1397B and section 1391(d)(1)(A)(i).

How to report. Report the gain on Part II of Form 8949 as the corporation otherwise would if it were not making the election. Enter "R" in column (f). Enter the amount of the postponed gain as a negative number in column (g). Put it in parentheses to show it is negative. See the instructions for Form 8949, columns (f), (g), and (h). Complete all remaining columns.

Exclusion of gain from DC Zone assets. If the corporation sold or exchanged a qualified District of Columbia Enterprise Zone (DC Zone) asset acquired after 1997 and before 2012, and held for more than 5 years, it may exclude any qualified capital gain that the corporation would otherwise include in income. 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, but doesn't include any of the following.

- 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.
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any of the following.

capital gain is any gain recognized on
regard to the exclusion (with the
corporation otherwise would without
exchange on Form 8949, Part II, as the
property.

renewal community businesses.

interest in, or property of, certain
income. The exclusion applies to an
qualified capital gain that the
5 years, it may be able to exclude any
and before 2010, and held for more than
community asset acquired after 2001
community assets.

Exclusion of gain from qualified
community assets. If the corporation
sold or exchanged a qualified
community asset acquired after 2001
and before 2010, and held for more than
5 years, it may be able to exclude any
qualified capital gain that the
corporation would otherwise include in
income. The exclusion applies to an
interest in, or property of, certain
renewal community businesses.

Qualified community asset. A
qualified community asset is any of the
following.

Qualified community stock.
Qualified community partnership
interest.
Qualified community business
property.

Qualified capital gain. Qualified
capital gain is any gain recognized on
the sale or exchange of a qualified
community asset, but does not include
any of the following.

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 renewal community
business.

Gain from a related-party transaction.
See Sales and Exchanges Between
Related Persons in chapter 2 of Pub.
544.

See section 1400F for more details
and special rules.

How to report. Report the sale or
exchange on Form 8949, Part II, as the
corporation otherwise would without
regard to the exclusion (with the
appropriate box checked). Enter “X” in
column (f) and enter the amount of the
excluded gain as a negative number (in
parentheses) in column (g). Complete
all remaining columns. See the
Instructions for Form 8949.

Gain on the constructive sale of cer-
tain appreciated financial positions.
Generally, if the corporation holds an
appreciated financial position in stock or
certain other interests, it may have to
recognize gain (but not loss) if it enters
into a constructive sale (such as a “short
sale against the box”). See Pub. 550.

Gain from certain constructive own-
ership transactions. Gain in excess of
the underlying net long-term capital gain
the corporation would have recognized
if it had held a financial asset directly
during 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, the corporation
may have to pay interest. See section
1260(b) for details, including how to
figure the interest. Include the interest as
an additional tax on Form 1120,
Schedule J, line 9f (or the applicable
line for other income tax returns).

Rollover of publicly traded securities
gain into specialized small business
investment companies (SSBICs). If
the corporation sold publicly traded
securities, it may elect under section
1044(a) to postpone all or part of the
gain on that sale if it bought common
stock or a partnership interest in an
SSBIC during the 60-day period that
began on the date of the sale. An
SSBIC is any partnership or corporation
licensed by the Small Business
Administration under section 301(d)
of the Small Business Investment Act
of 1958 (as in effect on May 13, 1993).
The corporation must recognize gain to
the extent the sale proceeds exceed the
cost (not taken into account previously)
of its SSBIC stock or partnership
interest purchased during the 60-day
period that began on the date of the
sale. The gain a corporation may
postpone each tax year is limited to the
smaller of (a) $1 million, reduced by the
gain previously excluded under section
1044(a), or (b) $250,000. Reduce the
basis of the SSBIC stock or partnership
interest by any postponed gain.

Attach a statement showing (a) how
the postponed gain was figured, (b) the
name of the SSBIC stock in which the
common stock or partnership interest
was purchased, (c) the date of
purchase, and (d) the new basis in that
SSBIC stock or partnership interest.

For more details, see section 1044 and
Regulations section 1.1044(a)-1.

The corporation must make the
election no later than the due date
(including extensions) for filing its tax
return for the year in which it sold the
securities or partnership interest. If the
original return was filed on time without
making the election, the corporation
may make the election on an amended
return filed no later than 6 months after
the original due date (excluding
extensions). Write “Filed pursuant to
section 301.9100-2” at the top of the
amended return.

How to report. To make the
election to postpone gain, report the
sale on Form 8949, Part I or II
(depending on how long the corporation
owned the stock), as the corporation
would if it were not making the election.
Enter “R” in column (f). Enter the
amount of the postponed gain as a
negative number (in parentheses) in
column (g). Complete all remaining
columns.

Gain on disposition of market dis-
count bonds. In general, if the
corporation realizes a capital gain upon
the disposition of a market discount
bond, the gain is recharacterized as
interest income to the extent of accrued
market discount as of the date of
disposition. See sections 1276 through
1278 and Pub. 550 for more information
on market discount. See the
Instructions for Form 8949 for detailed
information about how to report the disposition of a
market discount bond.

Gains on certain insurance property.
Form 1120-L filers with gains on
property held on December 31, 1958,
and certain substituted property
acquired after 1958, should see section
818(c).

Gains and losses from passive activ-
ities. 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 Form 8949 and Schedule D.
An applicable loss may be limited under
the passive activity rules. See Form
8810 and the Instructions for Form
8810.

Gains and losses of foreign corpora-
tions from the disposition of invest-
ment in U.S. real property. Foreign
corporations must report gains and
losses from the disposition of U.S. real
property interests. For more information,
see section 897. Also, see section
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 FMV. 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.

Gain or loss on certain asset transfers to a tax-exempt entity. A taxable corporation that transfers all or substantially all of its assets to a tax-exempt entity or converts from a taxable corporation to a tax-exempt entity in a transaction other than a liquidation generally must recognize gain or loss as if it had sold the assets transferred at their FMV. For details and exceptions, see Regulations section 1.1237(d)-4.

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 or a securities futures contract (as defined in section 1234B). See Pub. 550 for details.

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. Report any short sale on Form 8949 in the year the sale closes.

If a short sale closed in 2016 but you didn’t get a 2016 Form 1099-B (or substitute statement) for it because you entered into it before 2011, report it on Form 8949 in Part I with box C checked or Part II with box F checked (whichever applies). In column (a), enter (for example) “100 sh. XYZ Co. —2010 short sale closed.” Fill in the other columns according to their instructions. Report the short sale the same way if you received a 2016 Form 1099-B (or substitute statement) that doesn’t show the proceeds (sales price).

Gain or loss on certain short-term federal, state, and municipal obligations (other than tax-exempt obligations). If a short-term governmental obligation (other than a tax-exempt obligation) that is a capital asset is acquired at an acquisition discount, then, on any gain realized, a portion is treated as ordinary income and any remaining balance is treated as a short-term capital gain. See section 1271.

Contingent payment debt instruments. If the corporation sells a taxable contingent payment debt instrument subject to the noncontingent bond method at a gain, the gain is ordinary income (interest income), even if the corporation holds the debt instrument as a capital asset. If the corporation sells a taxable contingent payment debt instrument subject to the noncontingent bond method at a loss, its loss is an ordinary loss to the extent of its prior original issue discount (OID) inclusions on the debt instrument. If the debt instrument is a capital asset, treat any loss that is more than the corporation’s prior OID inclusions as a capital loss. See Regulations section 1.1275-4(b) and Pub. 550 for more information on contingent payment debt instruments subject to the noncontingent bond method.

See the instructions for Form 8949 for information on how to report the gain or loss.

At-risk limitations (section 465). If the corporation sold or exchanged a capital asset 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 Form 8949, Schedule D, and Form 6198.

Loss from a sale or exchange between the corporation and a related person. Except for distributions in complete liquidation of a corporation, no loss is allowed from the sale or exchange of property between the corporation and certain related persons. See section 267.

Loss from a wash sale. A wash sale occurs if the corporation acquires (by purchase or exchange), or has a contract or option to acquire, substantially identical stock or securities within 30 days before or after the date of the sale or exchange. The corporation cannot deduct a loss from a wash sale of stock or securities (including contracts or options to acquire or sell stock or securities) unless the corporation is a dealer in stock or securities and the loss was sustained in a transaction made in the ordinary course of the corporation’s trade or business. For more information on wash sales, see section 1091.
Specific Instructions

Parts I and II
In Part I, report the sale, exchange, or distribution of capital assets held 1 year or less. In Part II, report the sale, exchange, or distribution of capital assets held more than 1 year.

Lines 1a and 8a — Transactions not reported on Form 8949. The corporation can report on line 1a (for short-term transactions) or line 8a (for long-term transactions) the aggregate totals from any transactions (other than sales of collectibles) for which:

- The corporation received a Form 1099-B (or substitute statement) that shows basis was reported to the IRS and does not show any adjustments in box 1f or box 1g;
- The ordinary checkbox in box 2 is not checked; and
- The corporation does not need to make any adjustments to the basis or type of gain or loss reported on Form 1099-B (or substitute statement), or to its gain or loss.

See How To Complete Form 8949, Columns (f) and (g), in the Instructions for Form 8949 for details about possible adjustments to the corporation’s gain or loss.

If the corporation chooses to report these transactions on lines 1a and 8a, do not report them on Form 8949. Also, the corporation does not need to attach a statement to explain the entries on lines 1a and 8a.

Figure gain or loss on each line. First, subtract the cost or other basis in column (e) from the proceeds (sales price) in column (d). Enter the gain or loss in column (h). Enter negative amounts in parentheses.

Example 1 — Basis reported to the IRS. The corporation received a Form 1099-B reporting the sale of stock held for 3 years, showing proceeds (in box 1d) of $6,000 and cost or other basis (in box 1e) of $2,000. Box 3 is checked, meaning that basis was reported to the IRS. The corporation does not need to make any adjustments to the amounts reported on Form 1099-B or enter any codes. This was the corporation’s only 2016 transaction. Instead of reporting this transaction on Form 8949, the corporation can enter $6,000 on Schedule D, line 8a, column (d), $2,000 in column (e), and $4,000 ($6,000 - $2,000) in column (h).

If the corporation had a second transaction that was the same except that the proceeds were $5,000 and the basis was $3,000, combine the two transactions. Enter $11,000 ($6,000 + $5,000) on Schedule D, line 8a, column (d); $5,000 ($2,000 + $3,000) in column (e); and $6,000 ($11,000 - $5,000) in column (h).

Example 2 — Basis not reported to the IRS. The corporation received a Form 1099-B showing proceeds (in box 1d) of $6,000 and cost or other basis (in box 1e) of $2,000. Box 3 is not checked, meaning that basis was not reported to the IRS. Do not report this transaction on line 1a or line 8a. Instead, report the transaction on Form 8949. Complete all necessary pages of Form 8949 before completing line 1b, 2, 3, 8b, 9, or 10 of Schedule D.

Example 3 — Adjustment. The corporation received a Form 1099-B showing proceeds (in box 1d) of $6,000 and cost or other basis (in box 1e) of $2,000. Box 3 is checked, meaning that basis was reported to the IRS. However, the basis shown in box 1e is incorrect. Do not report this transaction on line 1a or line 8a. Instead, report the transaction on Form 8949. See the instructions for Form 8949, columns (f), (g), and (h). Complete all necessary pages of Form 8949 before completing line 1b, 2, 3, 8b, 9, or 10 of Schedule D.

Part IV—Alternative Tax for Corporations With Qualified Timber Gain
For tax years beginning in 2016, if the corporation has both a net capital gain and a qualified timber gain, complete Part IV to determine the alternative tax. For this purpose, a qualified timber gain is the net gain described in section 631(a) and (b) for the tax year, determined by taking into account only timber held more than 15 years.

Enter the amount from Part IV, line 30, on Form 1120, Schedule J, line 2, or the applicable line of the corporation’s tax return.

Filers of Form 1120-RIC do not use Schedule D (Form 1120) to figure the alternative tax. These filers figure the alternative tax on Part II of Form 1120-RIC.