SALE OF BUSINESS ASSETS

Taking the Mystery Out of Form 4797
Recapture = ordinary income

Ordinary income

§1245
§1250

Other recapture
Form 4797

Do NOT report on Form 4797

Sale of inventory
Goodwill acquired or created before 8/10/93
Sale of a partnership interest
  - Schedule D
Sale of C or S corporation stock
  - Schedule D
  - Exception = §1244 stock
Form 4797 – §1231

Net §1231 gain
Net §1231 loss
§1231 loss for prior 5 years
Unrecaptured §1250 gain
Form 4797 – Check the Computer

Form 4797
- Net §1231 losses
- Recapture

Schedule D
- Net §1231 gains
Part I – most property held more than 1 year

- Long-term assets sold at a loss
- Nondepreciable long-term assets sold at a gain
- Income from Part III, line 32
- Nonrecapture net §1231 losses from prior years
Form 4797

Part II – ordinary gains and losses

- Assets held less than 1 year
- All ordinary gains or losses
- Income from Part III, line 31
Form 4797

Part III – property under sections §§1245, 1250, 1252, 1254 & 1255

Long-term asset greater than 1 year with depreciation
  - Calculate recapture
  - Calculate §1231 gain
§1245 Recapture

Tangible personal property
Gain due to depreciation
Allowed or allowable
Ordinary income
§1245 Recapture

Example

- 5-year MACRS property
- Purchased January 1, 2010 for $30,000
- Accumulated depreciation = $13,000
- Sold January 2, 2011 for $24,000
§1250 Recapture

Tangible real property
Based on year placed in service
- ADR depreciation
- ACRS depreciation
- MACRS depreciation
§1250 Recapture

Example

- Purchase price = $40,000
- Accumulated ACRS depreciation = $25,000
- Accumulated SL depreciation = $18,000
- Sales price = $32,000

- $17,000 ($32,000 - $15,000) gain
  * $7,000 ($25,000 - $18,000) is §1250 recapture
  * $10,000 is unrecaptured §1250 gain
Form 4797

Part IV – recapture amounts under §§179 & 280F(b)(2)

Recapture
  - §179
  - §280F(d)(2)
    * Listed property

Business use drops to 50% or less
Form 4797 Summary

Net §1231 gain
- Part I, line 9
- Schedule D

Net §1231 loss or ordinary income
- Part II, line 18b
- Front page 1040, 1120, 1120S & 1065
Unrecaptured §1250 gain

Gain due to depreciation
Capital gain
  - Maximum 25% rate
  - Schedule D, line 19
Unrecaptured §1250 Gain

Example
- Commercial building
- Purchase price = $65,000
- Accumulated depreciation = $6,000
- Sales price = $100,000
Thank you

Don’t forget to stop by the NATP booth in the EXPO Hall for a handout related to this session