



# SALE OF BUSINESS ASSETS

Taking the Mystery Out of Form 4797

# Form 4797 – Introduction

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

# Form 4797

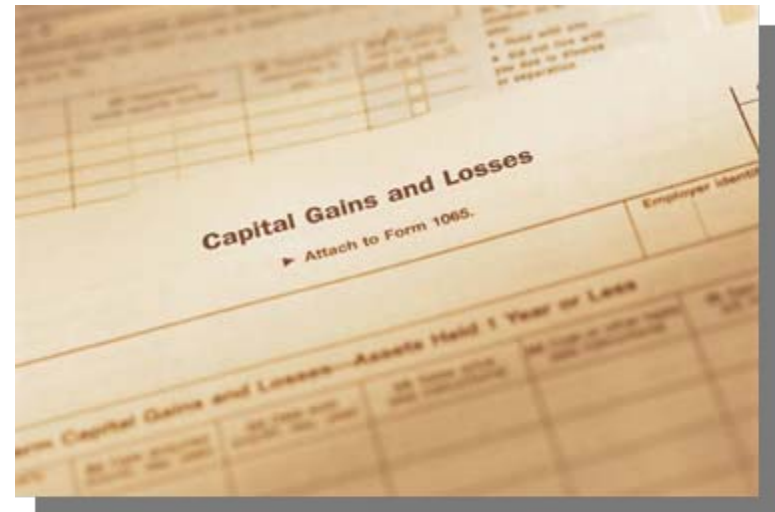
Part I – most property held more than 1 year

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

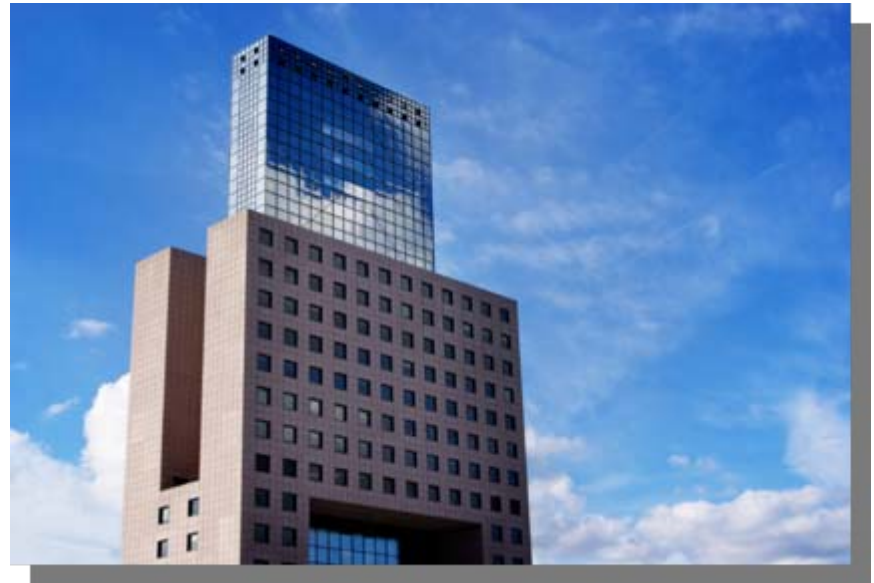
- Part II, line 18b
- Front page 1040, 1120, 1120S & 1065

# 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