Chapter 3: Capital Gains and Losses

This chapter is designed to assist the tax professional in gaining a basic understanding of Schedule D, Capital Gains and Losses, and Form 8949, Sales and Other Dispositions of Capital Assets. Related forms, schedules, and worksheets are also discussed. The capital gains tax rates and other important issues relating to the disposition of capital assets are included in the chapter.

REPORTING THE DISPOSITION OF CAPITAL ASSETS

SCHEDULE D

Schedule D is used to report the sale or exchange of a capital asset not reported on another schedule, as well as capital gain distributions, nonbusiness bad debts, and gains from involuntary conversions (other than from casualty or theft) of capital assets that are not held for business or profit. The following are reported on Schedule D:

- The overall gain or loss from transactions reported on Form 8949
- Certain transactions not required to be reported on Form 8949
- Capital gain distributions not reported directly on Form 1040, line 13
- Capital loss carryovers
- Capital gain or loss from an S corporation, partnership, estate, or trust
- A gain from Form 2439, Notice to Shareholder of Undistributed Long-Term Capital Gains, or Form 6252, Installment Sale Income, or from part I of Form 4797, Sales of Business Property
- A gain or loss from Form 4684, Casualties and Thefts; Form 6781, Gains and Losses From Section 1256 Contracts and Straddles; or Form 8824, Like-Kind Exchanges

A blank Schedule D is shown on the following pages. Line numbers and sections are referred to throughout this chapter.

Please note. Corrections for all of the chapters are available at www.TaxSchool.illinois.edu. For clarification about acronyms used throughout this chapter, see the Acronym Glossary at the end of the Index.

2. Instructions for Schedule D.
# SCHEDULE D
**(Form 1040)**

**Capital Gains and Losses**

- **Part I** Short-Term Capital Gains and Losses—Assets Held One Year or Less
  - **1a** Totals for all short-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 1b.
  - **1b** Totals for all transactions reported on Form(s) 8949 with Box A checked.
  - **2** Totals for all transactions reported on Form(s) 8949 with Box B checked.
  - **3** Totals for all transactions reported on Form(s) 8949 with Box C checked.
  - **4** Short-term gain from Form 6252 and short-term gain or loss from Forms 4684, 6781, and 8824.
  - **5** Net short-term gain or loss from partnerships, S corporations, estates, and trusts from Schedule(s) K-1.
  - **6** Short-term capital loss carryover. Enter the amount, if any, from line 8 of your Capital Loss Carryover Worksheet in the instructions.
  - **7** Net short-term capital gain or (loss). Combine lines 1a through 6 in column (h). If you have any long-term capital gains or losses, go to Part II below. Otherwise, go to Part III on the back.

**Part II** Long-Term Capital Gains and Losses—Assets Held More Than One Year

- **8a** Totals for all long-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 8b.
- **8b** Totals for all transactions reported on Form(s) 8949 with Box D checked.
- **9** Totals for all transactions reported on Form(s) 8949 with Box E checked.
- **10** Totals for all transactions reported on Form(s) 8949 with Box F checked.
- **11** Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824.
- **12** Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1.
- **13** Capital gain distributions. See the instructions.
- **14** Long-term capital loss carryover. Enter the amount, if any, from line 13 of your Capital Loss Carryover Worksheet in the instructions.
- **15** Net long-term capital gain or (loss). Combine lines 8a through 14 in column (h). Then go to Part III on the back.

For Paperwork Reduction Act Notice, see your tax return instructions.
## Part III  Summary

16 Combine lines 7 and 15 and enter the result.

- If line 16 is a gain, enter the amount from line 16 on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 17 below.
- If line 16 is a loss, skip lines 17 through 20 below. Then go to line 21. Also be sure to complete line 22.
- If line 16 is zero, skip lines 17 through 21 below and enter -0- on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 22.

17 Are lines 15 and 16 both gains?

- Yes. Go to line 18.
- No. Skip lines 18 through 21, and go to line 22.

18 Enter the amount, if any, from line 7 of the 28% Rate Gain Worksheet in the instructions.

19 Enter the amount, if any, from line 18 of the Unrecaptured Section 1250 Gain Worksheet in the instructions.

20 Are lines 18 and 19 both zero or blank?

- Yes. Complete the Qualified Dividends and Capital Gain Tax Worksheet in the instructions for Form 1040, line 44 (or in the instructions for Form 1040NR, line 42). Do not complete lines 21 and 22 below.
- No. Complete the Schedule D Tax Worksheet in the instructions. Do not complete lines 21 and 22 below.

21 If line 16 is a loss, enter here and on Form 1040, line 13, or Form 1040NR, line 14, the smaller of:

- The loss on line 16 or
- ($3,000), or if married filing separately, ($1,500)

Note. When figuring which amount is smaller, treat both amounts as positive numbers.

22 Do you have qualified dividends on Form 1040, line 9b, or Form 1040NR, line 10b?

- Yes. Complete the Qualified Dividends and Capital Gain Tax Worksheet in the instructions for Form 1040, line 44 (or in the instructions for Form 1040NR, line 42).
- No. Complete the rest of Form 1040 or Form 1040NR.