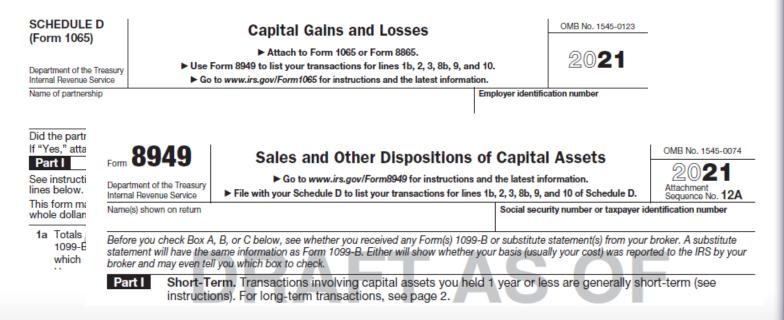


Income – Capital Gain or Loss

\square	1	Wages, salaries, tips, etc. Attach Form(s) W-2	1		
Attach	2a	Tax-exempt interest 2a b Taxable interest	. [2b	
Sch. B if required.	3a	Qualified dividends 3a b Ordinary dividends	. [Зb	
	4a	IRA distributions 4a b Taxable amount	. [4b	
	5a	Pensions and annuities 5a b Taxable amount	. [5b	
Standard Deduction for—	6a	Social security benefits 6a b Taxable amount	. [6b	
	7	Capital gain or (loss). Attach Schedule D if required. If not required, check here		7	
 Single or Married filing 	8	Other income from Schedule 1, line 9	. [8	
separately, \$12,400	9	Add lines 1, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income	▶ [9	
 Married filing 	10	Adjustments to income:	_		
jointly or Qualifying	а	From Schedule 1, line 22			
widow(er), \$24,800	ь	Charitable contributions if you take the standard deduction. See instructions 10b			
 Head of 	С	Add lines 10a and 10b. These are your total adjustments to income	►L	10c	
household, \$18,650	11	Subtract line 10c from line 9. This is your adjusted gross income	▶ [11	
If you checked any box under Standard	12	Standard deduction or itemized deductions (from Schedule A)	.	12	
	13	Qualified business income deduction. Attach Form 8995 or Form 8995-A	. [13	
Deduction, see instructions.	14	Add lines 12 and 13	. [14	
	15	Taxable income. Subtract line 14 from line 11. If zero or less, enter -0	. [15	

About Capital Gain or Loss

- Additional resources listed in L< "References" tab
- Review all tips and cautions in the lesson
- Read all examples and sample interviews
- We will review answers to each exercise



Objectives - Capital Gain or Loss

- Determine the adjusted basis of capital assets
- Determine if the asset's holding period is long-term or short-term
- Calculate the taxable gain or deductible loss from the sale of capital assets
- Determine whether a home is the taxpayer's main home
- Determine if a taxpayer meets the ownership and use tests
- Determine when the 5-year ownership/use test period is suspended
- Time Required: 30 minutes

Topics



Reporting capital gain or loss

- Basis of Stock
- Holding period
- Proceeds from the sale
- Form 8949 and Schedule D
- Capital loss carryovers

Sale of main home

- Main home
- Ownership and use tests
- Gain on sale of main home
- Reporting gain from sale of home
- 5-year test period suspension

Key Terms

Definitions are always available in the L< online Glossary.

- Adjusted Basis
- Amount Realized
- Basis
- Capital Gain Distributions
- Capital Loss Carryover
- Dividends
- DRIP Accounts
- Excludable Income
- First-time Homebuyer Credit
- Five-year Test Period Suspension

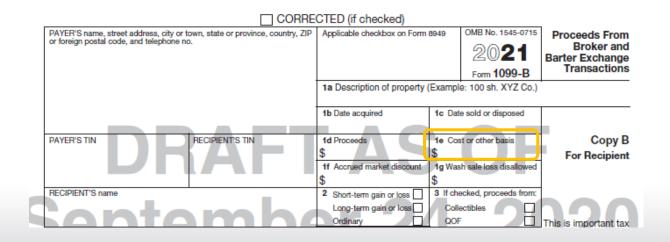
- Holding Period
- Main Home
- Mutual Fund
- Qualified Principal Residence Indebtedness
- Sale of Main Home
- Selling Price
- Stock Dividends
- Stock Split
- Wash Sale

Reporting Capital Gain or Loss

- What forms are used for reporting capital gains and losses?
 - Schedule D and Form 8949
- What is cost basis?
 - Original purchase cost
- What is the holding period?
 - Time between the date of purchase and date of sale
- What is sales price?
 - Proceeds of sale of asset, gross or net, reported on Form 1099-B
 - If there is no Form 1099-B, taxpayer must provide this information

Basis of Stock

- Basis is usually the original purchase price of an asset.
- What is adjusted basis?
 - Price/cost plus commissions or fees paid at time of purchase
- If Form 1099-B does not provide the basis, taxpayers must provide this information.
- If taxpayers received property as a gift or inheritance, and do not know the basis, refer them to a professional tax preparer.

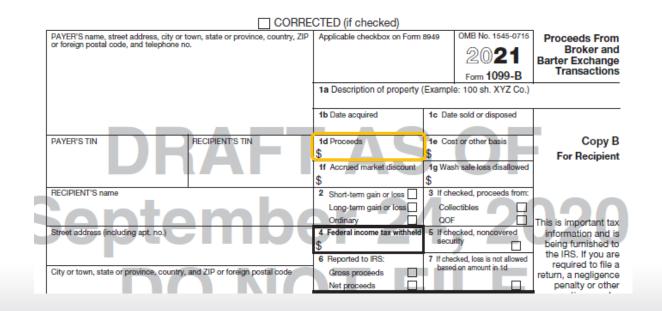


Holding Period

- What is a short-term holding period?
 - 1 year or less
 - Taxed at regular income tax rates
- What is long term?
 - More than 1 year
 - Taxed at a lower rate than short-term
- Mutual fund shares are generally acquired at various times, in various quantities, and at various prices; figuring the basis can be difficult.
 Refer to <u>Pub 550</u> for information on how to report the sale or exchange of mutual fund shares
- Blocks of stock may have differing holding periods and bases. Unless specified at the time of sale, blocks/shares are sold using FIFO method (first in, first out)

Proceeds from the Sale

- Brokers report information about sale of stock on Form 1099-B
 - Entries in boxes 8 through 13 are out of scope
- Unless securities sold were noncovered securities, brokers must report:
 - Cost or other basis
 - Whether gain/loss is short-term or long-term



Proceeds from the Sale

- TaxSlayer Schedule D, Capital Gain or Loss screen determines short or long term gain, and calculates gain or loss, tax liability, and capital loss carryovers.
- Stock sales and other distributions may be reported by brokers on a 1099 Consolidated Statement or Substitute 1099.
 - Review the sample in the L< Lesson

Thelma Emerson		ABC Investments	2021	
123 Any Street		456 Main Street	12-31-21	021
Your City, State Zi)	Your City, State Zip		
Account Number:	1234-567-9012	Phone (XXX) XXX-XXXX		
SSN: XXX-XX-XXX	(X	FEIN: XX-XXXXXXX		
Substitute 1099	-8		Federal Income	Manage and Sacurda Stack
Date of Sale	Stocks, Bonds-Sales price	Description	Tax Withheld	Noncovered Security Stocks Sold in 2019 Box 5
Box 1b	(less commision) Box 1d	Box 1a	Box 4	
2-23-2021	\$ 2,100.00	20 shares Tractor Company	\$ 0.00	(X)
6-1-2021	\$ 900.00	100 shares Car Company	\$ 0.00	\boxtimes
6-22-2021	\$14,000.00	500 shares Couch Company	\$ 0.00	X
7-5-2021	\$ 2,000.00	25 shares Technology Company	\$ 0.00	133

Form 8949 and Schedule D

- Use Form 8949 for reporting details of capital gain or loss transactions.
 - Short-term transactions go on Form 8949, page 1.
 - Long-term transactions go on Form 8949, page 2.
 - See Pub 4012, Tab D, Income, <u>Adjustments to Basis</u> for details.
 - Form(s) 8949 subtotals transfer to <u>Schedule D</u> in aggregate.
- Enter data in the TaxSlayer Schedule C Capital Gain or Loss screen, which automatically transfers to Form 8949 and Schedule D.
 - If data from source documents (Forms 1099-B and 1099-DIV) is entered properly, amounts will be reported in the appropriate places

Capital Loss Carryovers

- What is the most net capital loss a taxpayer can take in a single year?
 - \$3,000 (\$1,500 for Married Filing Separately)
- Unused losses can be carried over to later years until gone
- Previous year return is needed to figure capital loss carryover. Use:
 - <u>Capital Loss Carryover Worksheet</u> from Schedule D instructions, and/or
 - If the loss is over the limit, the tax software reports the maximum allowable deduction. The remainder can be carried over.

Sale of Main Home

- Taxpayers may be able to exclude from taxable income the gain from sale of a main home.
 - Up to a maximum of \$250,000 (\$500,0000 for Married Filing Jointly)
- Volunteers need to confirm the home sold was the taxpayer's main home, and the taxpayer meets the ownership and use tests.
 - For help in making this determination, see Pub 523.

Sale of Home	If the taxpayer is required to report the sale and it results in a gain, enter the				
Basic Info about the Sale	purchase date, sale date, purchase price, and sales price in the Sale of Home Worksheet (you will enter ca improvements and other adjustmen basis on the next screen).				
MM T DD T TYTY T					
Purchase price *					
\$					
Date of sale *					
MM * DD * YYYY *					
Sale price *					
\$					
Allowable Depreciation related to the business use or rental of the home					
Out of scope					
Depreciation taken after 05/06/1997					
Out of scope					

Ownership and Use Tests

During the five-year period ending on the date of the sale, the taxpayer must have:

- Owned the home for at least two years (the ownership test), and
- Lived in the home as his or her main home for at least two years (the use test)
- In addition, during the two-year period ending on the date of the sale, the taxpayer must *not* have claimed an exclusion on a gain from the sale of another home.
- See the L< lesson for details on period of ownership and use

Gain on Sale of Home

- Figuring the gain or loss on the sale of a home is based on:
 - Selling price
 - Amount realized
 - Basis
 - Adjusted basis
- See the worksheet examples in Pub 523
 - Adjusted Basis of Home Sold
- Remember loss on the sale of a personal residence is not deductible.

Reporting Gain from the Sale of Home

- Gain must be reported when
 - Amount is greater than the allowed exclusion
 - Home is *not* the taxpayer's main home
- If taxpayer received <u>Form 1099-S</u> for their gain or loss on the sale of a main home, it must be reported on Form 8949 and Schedule D

(a) Description of property	(b) (c) Date sold or	Date sold or		(e) Cost or other basis. See the Note below	s. enter a c W See the sep	ode in column (f). parate instruction	Gain or (loss). Subtract column	
(Example: 100 sh. XYZ Co.)	Mo day will disposed of		(sales price) (see instructions)	and see Column in the separate instructions	e) (f) Code(s) from Instructions	(g) Amount of adjustment	from column (d) a combine the resu with column (g)	lt
Main Home - Section 121 Exclusion	9/3/2009 7	/7/2019	789,000	226,00	0 в	-500,00	63,000	
which you have However, if you	ong-term transa nich basis was n ve no adjustmer ou choose to rep), leave this line	eported to nts (see ins port all the	the IRS and for tructions). se transactions					
8b Totals for all t Box D checke			orm(s) 8949 with					
9 Totals for all t Box E checke			orm(s) 8949 with					
10 Totals for all t Box F checke			orm(s) 8949 with	789,0	00 22	6,000	(500,000)	63,000

5-Year Test Period Suspension

- 5-Year ownership and use period may be suspended during any period of "qualified official extended duty" for a taxpayer who is:
 - Member of uniformed services or Foreign Service of the U.S.
 - Intelligence community employee
 - Employee or volunteer of the Peace Corps
- Qualified official extended duty:
 - Serve at a duty station at least 50 miles from their main home, or
 - Live in government quarters under government order
 - Called to active duty for more than 90 days or an indefinite period

Out of Scope for this Lesson:

- Taxpayers who have sold any assets other than stock, mutual funds, or a personal residence
- Taxpayers who trade in options, futures, or other commodities, whether or not they disposed of any during the year
- Taxpayers who must answer "Yes" to the digital asset (virtual currency) question on From 1040
- Determination of basis issues:
 - Basis of any asset acquired other than by purchase or inheritance, such as a gift or employee stock option, unless the taxpayer provides the basis and holding period
 - Basis of inherited property determined by method other than the fair market value (FMV) of the property on the date of the decedent's death, unless the taxpayer provides the basis and holding period
- Like-kind exchanges and worthless securities
- Form 1099-B, boxes on Bartering: Profit or (loss) realized on closed contracts; Unrealized profit (loss) on open contracts – prior year; Unrealized profit or (loss) on open contracts – current year; or Aggregate profit (loss) on contracts; Proceeds from collectibles; or FATCA filing requirement
- Reduced exclusion computations/determinations in the sale of a home
- Married homeowners who do not meet all requirements to claim the maximum exclusion on sale of home
- Decreases to basis, including:
 - Deductible casualty losses and gains a taxpayer postponed from the sale of a previous home before May 7, 1997
 - Depreciation during the time the home was used for business purposes or as rental property
- Taxpayers with "nonqualified use" issues
- Sale of a home used for business purposes or as rental property

Summary – Capital Gains and Losses

- In this lesson, you learned how to identify an asset's holding period, adjusted basis, net short-term and long-term capital gains or losses, the taxable gain or deductible loss, and the amount of capital loss carryover.
- Taxpayers must use Form 8949 and Schedule D to report capital gains and losses.
- Completion of Form 8949 and Schedule D requires information from Form 1099-B and Form 1099-DIV or a 1099 Consolidated Statement and from taxpayer records.
- Information from a taxpayer's prior year return is needed to compute a loss carryover amount.

Summary – Sale of a Main Home

- This lesson covered how to report the sale of a taxpayer's principal residence.
- To exclude gain from sale of a home:
 - The home sold was taxpayer's main home (place the taxpayer lived most of the time)
 - Owned the home for at least two years (the ownership test), and
 - Lived in the home as their main home for at least two years (the use test)
 - The required two years of ownership/use need not be continuous
 - Taxpayer did not exclude gain in the two years before the current sale of the home
- 5-Year test period can be suspended for taxpayers serving on qualified official extended duty.