

Income – Capital Gain or Loss

This lesson will help you assist taxpayers who must use Form 8949, Sales and Other Dispositions of Capital Assets, in conjunction with Form 1040, Schedule D, Capital Gains and Losses, to accurately report capital gains and/or losses on the sale of assets.

Learning Objectives

- Determine the adjusted basis of capital assets
- Determine if the asset's hold period is long-term or short-term
- Determine the receipts for the sales transaction
- Calculate the taxable gain or deductible loss from the sale of capital assets
- Calculate the amount of any capital loss carryover

Getting Started



Study the associated IRS VITA/TCE Training Guide Chapter 11.



Open Volunteer Resource Guide, Tab D, Income. Study D-23 through D-27.

Resources:

Volunteer Training Guide – Pub 4491

Volunteer Resource Guide – Pub 4012

- [IRS Form 1040, Schedule D Instructions](#)
- [IRS Form 8949 Sales and Other Dispositions of Capital Assets Instructions](#)
- [IRS Form 1099-B Proceeds From Broker and Barter Exchange Transactions](#)

Feedback: Please email:

selfstudy@aarpfndntaxaide.org

Appreciate suggestions and comments.

Hint from NTTC Modifications to the IRS Training Guide

Capital gains or losses – scope

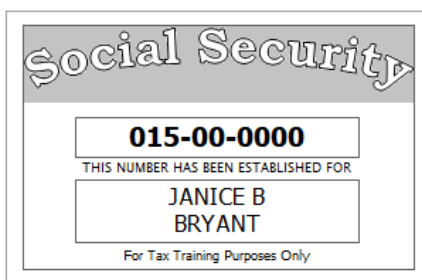
For Tax-Aide only: The sale of bonds that mature or are sold with no gain or loss or are reported on a brokerage statement with capital gain or loss only (no ordinary income/loss) are in scope. The disposition of totally worthless securities is in scope. However, securities worth anything, even \$1, are not totally worthless.

Practice Lab

Open [TaxSlayer Practice Lab](#) and login. Find and view the **Advanced Tax Topics Part 1 video** in the Practice Lab, Home Page, Section 4.

TaxSlayer Exercise:

1. Create a new return with this detail:



2. Hypothetical situation:

- Carl and Janice are married and will file Married Filing Jointly, no dependents
- Carl has Medicare and Jane purchases health insurance from a local agent
- Asked to use the Standard Deduction
- Want their refund mailed to them

On the following pages:

- Review and input the Form 1099-B from Lincoln Investment Services into the TaxSlayer Capital Gains and Losses Worksheet
- Review the two page Broker Statement from Secure Financial Services and input:
 - Form 1099-DIV into the TaxSlayer Dividend Income Worksheet
 - Form 1099-INT into the TaxSlayer Interest Income and Tax Exempt Worksheets

Find answers in the file: *Answers to Practice Lab Self-Study Exercises* in the Self-Study 2018>H. Answers, etc. Module.

Capital Gains and Losses

Social Security

015-00-7613

THIS NUMBER HAS BEEN ESTABLISHED FOR

CARL R EVANS

For Tax Training Purposes Only

Social Security

015-00-0000


THIS NUMBER HAS BEEN ESTABLISHED FOR

JANICE B BRYANT

For Tax Training Purposes Only

Driver's License (Tax Training Only)


License No. 20180919135039
 Name and Address
CARL R EVANS
8705 SOMERSBY AVE
YC, YS, YZIP



Birth Date **07/08/1945** Expiration Date **07/08/2023**

Driver's License (Tax Training Only)

License No. 20180919135033
 Name and Address
JANICE B BRYANT
8705 SOMERSBY WAY
YC, YS, YZIP



Birth Date **01/15/1955** Expiration Date **01/15/2023**

Janice states that she inherited 25 shares of IBM stock from her uncle when he died in 2015. The price on the date of death was \$105 per share.

<input type="checkbox"/> CORRECTED			Applicable Check Box on Form 8949		<div style="border: 1px solid black; padding: 5px; font-size: 24px; font-weight: bold;">2018</div> Form 1099-B	Proceeds From Broker and Barter Exchange Transactions
PAYER'S name, address, city, state, ZIP code LINCOLN INVESTMENT SERVICES 197 ESSEX AVE JACKSONVILLE FL 32209			1a Description of Property (Example 100 sh. XYZ Co.) 25 SHARES IBM STOCK			
PAYER'S Federal identification number 89-6123456			RECIPIENT'S identification number 015-00-0000		Copy B For Recipient	
RECIPIENT'S name, address, city, state, ZIP code JANICE B BRYANT 8705 SOMERSBY WAY YC, YS, YZIP			1b Date acquired 08/19/2018			
Account number (see instructions) 5629851			1c Date sold or disposed 08/19/2018			
CUSIP number FATCA filing requirement <input type="checkbox"/>			1d Proceeds \$3,569.50			
14 State Name 15 State identification no. 18 State tax withheld			2 Type of Gain or loss Short term gain or loss <input type="checkbox"/> Long term gain or loss <input type="checkbox"/> Ordinary <input type="checkbox"/>		This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.	
10 Unrealized profit or (loss) on open contracts - 12/31/2018			3 If checked, basis reported to IRS <input type="checkbox"/>			
12 Check if proceeds from collections <input type="checkbox"/>			4 Federal income tax withheld			
11 Aggregate profit or (loss) on contracts			5 If checked, noncovered security <input checked="" type="checkbox"/>			
12 Bartering			6 Reported to IRS Gross proceeds <input type="checkbox"/> Net proceeds <input checked="" type="checkbox"/>			
9 Unrealized profit or (loss) on open contracts - 12/31/2017			7 If checked, loss is not allowed due to amount in 1d <input type="checkbox"/>			

Form **1099-B**

Capital Gains and Losses

Secure Financial Services 2715 Financial Cir Boston, MA 02110		2018 TAX REPORTING STATEMENT Carl Evans 8705 Somersby Way, Your City, YS ZIP Account No. 111-227 Recipient ID No. 015-00-7613 Payer's Fed ID Number: 63-1123456	
Form 1099-DIV 2018 Dividends and Distributions		Copy B for Recipient (OMB NO. 1545-0110)	
Box		Amount	
1a	Total Ordinary Dividends	3,578.23	
1b	Qualified Dividends	2,675.10	
2a	Total Capital Gain Distributions (Includes 2b- 2d)	0.00	
2b	Capital Gains that represent Unrecaptured 1250 Gain	0.00	
2c	Capital Gains that represent Section 1202 Gain	0.00	
2d	Capital Gains that represent Collectibles (28%) Gain	0.00	
3	Nondividend Distributions	14.75	
4	Federal Income Tax Withheld	0.00	
5	Investment Expenses	0.00	
6	Foreign Tax Paid	8.18	
7	Foreign Country or U.S. Possession	0.00	
8	Cash Liquidation Distributions	0.00	
9	Non-Cash Liquidation Distributions	0.00	
10	Exempt-Interest Dividends	0.00	
11	Specified Private Activity Bond Interest Dividends	0.00	
12	State		
13	State Identification No.		
14	State Tax Withheld	0.00	
	FATCA filing requirement		
Form 1099-INT 2018 Interest Income		Copy B for Recipient (OMB NO. 1545-0112)	
Box		Amount	
1	Interest Income	398.00	
2	Early Withdrawal Penalty	0.00	
3	Interest on U.S. Savings Bonds and Treas. Obligations	0.00	
4	Federal Income Tax Withheld	0.00	
5	Investment Expenses	0.00	
6	Foreign Tax Paid	6.97	
7	Foreign Country or U.S. Possession		
8	Tax-Exempt Interest	975.00	
9	Specified Private Activity Bond Interest	0.00	
Form 1099-MISC 2018 Miscellaneous Income		Copy B for Recipient (OMB NO. 1545-0115)	
Box		Amount	
2	Royalties	0.00	
4	Federal Income Tax Withheld	0.00	
8	Substitute Payments in Lieu of Dividends or Interest	0.00	
16	State Tax Withheld	0.00	
17	State Identification No.		
18	State Income	0.00	
	FATCA filing requirement		
Summary of 2018 Original Issue Discount			
Box		Amount	
1	Original Issue Discount	0.00	**
2	Other Periodic Interest	0.00	**
4	Federal Income Tax Withheld	0.00	**
5	Market Discount	0.00	**#
6	Acquisition Premium	0.00	**#
8	Original Issue Discount on U.S. Treasury Obligations	0.00	**
** Amounts of original issue discount are individually reported to the IRS. # Box 5 and Box 6 contain amounts for covered securities only			
Summary of 2018 Proceeds From Broker and Barter Exchange Transactions			
Box		Amount	
1d	Proceeds	4,487.29	*
1e	Cost or Other Basis	4,408.53	**
4	Federal Income Tax Withheld	0.00	
6	Adjustments - Wash Sales	0.00	
	Adjustments - Market Discount	0.00	**
16	State Tax Withheld	0.00	
Regulated Futures Contracts:			
4	Federal Income Tax Withheld	0.00	
8	Profit or (Loss) Realized in 2015 on Closed Contracts	0.00	
9	Unrealized Profit of (Loss) on Open Contracts - 12/31/2014	0.00	
10	Unrealized Profit of (Loss) on Open Contracts - 12/31/2015	0.00	
11	Aggregate Profit of (Loss) on Contracts	0.00	
* Gross Proceeds from each of your security transactions are reported individually to the IRS. Refer to the Form 1099-B section of this statement. ** Box 1e and Box 6 contain amounts for covered securities only.			

Capital Gains and Losses

Secure Financial Services

2715 Financial Cir
Boston, MA 02110

2018 TAX REPORTING STATEMENT

Carl Evans
8705 Somersby Way, Your City, YS ZIP
Account No. 111-227
Recipient ID No. 015-00-7613
Payer's Fed ID Number: 63-1123456

FORM 1099-B 2018 Proceeds from Broker and Barter Exchange Transactions

Copy B for Recipient OMB NO. 1545-0715

Short-term transactions for which basis is reported to the IRS

Report on Form 8949 with Box A checked and/or Schedule D, Part I

(This Label is a Substitute for Boxes 1a & 3)

1a Description, 2 Short-term, 3 Basis reported to IRS, 6 Net Proceeds, and Stock or Other Symbol, CUSIP

(IRS Form 1099-B box numbers are shown below in bold type)

Action	Quantity	1b Date Acquired	1c Date Sold or Disposed	1d Proceeds	1e Cost or Other Basis	1f Code, if any	1g Adjustments	Gain/Loss (-)	4 Federal Income Tax Withheld	14 State 15 State ID Number	16 State Tax Withheld
Hillford Investment Fund											
Sale	16.52	09/23/2017	08/26/2018	169.36	142.58			26.78			
Sale	15.88	12/23/2017	08/26/2018	162.72	132.75			29.97			
Yuma Bond Fund											
Sale	175.00	10/25/2017	02/26/2018	2,368.15	2,632.75	W	226.80	-37.80			
TOTALS				2,700.23	2,908.08		226.80	18.95			

FORM 1099-B 2018 Proceeds from Broker and Barter Exchange Transactions

Copy B for Recipient OMB NO. 1545-0715

Long-term transactions for which basis is reported to the IRS

Report on Form 8949 with Box D checked and/or Schedule D, Part II

(This Label is a Substitute for Boxes 1a & 3)

1a Description, 2 Long-term, 3 Basis reported to IRS, 6 Net Proceeds, and Stock or Other Symbol, CUSIP

(IRS Form 1099-B box numbers are shown below in bold type)

Action	Quantity	1b Date Acquired	1c Date Sold or Disposed	1d Proceeds	1e Cost or Other Basis	1f Code, if any	1g Adjustments	Gain/Loss (-)	4 Federal Income Tax Withheld	14 State 15 State ID Number	16 State Tax Withheld
Hillford Investment Fund											
Sale	18.85	03/26/2011	08/26/2018	193.25	159.45			33.80			
Sale	17.77	06/23/2011	08/26/2018	182.13	158.36			23.77			
Sale	17.65	09/23/2011	08/26/2018	180.87	162.74			18.13			
Sale	17.52	12/23/2011	08/26/2018	179.61	156.87			22.74			
Sale	17.40	03/23/2012	08/26/2018	178.35	150.74			27.61			
Sale	17.28	06/23/2012	08/26/2018	177.09	146.35			30.74			
Sale	17.15	09/23/2012	08/26/2018	175.83	142.58			33.25			
Sale	17.03	12/23/2012	08/26/2018	174.57	139.86			34.71			
Sale	16.91	03/23/2013	08/26/2018	173.31	140.85			32.46			
Sale	16.79	06/23/2013	08/26/2018	172.05	142.65			29.40			
TOTALS				1,787.06	1,500.45			286.61			

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Find answers in the file: *Answers to Practice Lab Self-Study Exercises*
in the Self-Study 2018>H. Answers, etc. Module.

What information must I have to report a capital gain or loss?

To report capital gain or loss, you will need to identify:

- Basis and/or Adjusted Basis:
 - Basis is the original cost of the asset
 - Adjusted basis includes original cost plus any increases or decreases to that cost (such as commissions, fees, depreciation, deductible casualty losses, insurance reimbursements or major improvements)
 - Brokers must report cost or other basis on Form 1099-B, unless the IRS did not require the broker to report (non-covered securities*)
 - Taxpayers must enter codes reported on Form 1099-B to indicate whether or not basis has been reported to the IRS
- Holding period:
 - Short-term property is held one year or less
 - Long-term property is held more than one year
 - Long-term capital gains are taxed at a lower rate than short-term gains
 - Brokers must report whether the gain or loss is short-term or long-term on Form 1099-B, unless the IRS did not require the broker to report (non-covered securities*)
- Proceeds from the sale:
 - Form 1099-B reflects gross or net proceeds for a stock or mutual fund
 - Form 1099-S usually reflects gross proceeds of real estate transactions
 - Other evidence in the absence of the above

* The adjusted cost basis of non-covered securities is only reported to the taxpayer, and not the IRS.

Form 8949, Basis, and Recordkeeping (source IRS Form 4989 Instructions)

Form 8949 allows {the taxpayer} and the IRS to reconcile amounts that were reported to the IRS on Forms 1099-B or 1099-S (or substitute statements) with the amounts reported on the return. If {the taxpayer} receives Forms 1099-B or 1099-S (or substitute statements), always report the proceeds (sales price) shown on the form (or statement) in column (d) of Form 8949. If ... the cost or other basis was reported to the IRS, always report that basis on the Form 8949 in column (e). If any correction or adjustment to these amounts is needed, record in column (g).

Basis is the amount of investment in property for tax purposes. The basis of property bought is usually its cost. {The taxpayer} needs to know {the} basis to figure any gain or (loss) on the sale or other disposition of the property. {The taxpayer} must keep accurate records that show the basis and, if applicable, adjusted basis of your property. {Taxpayer} records should show the purchase price, including commissions; increases to basis, such as the cost of improvements; and decreases to basis, such as depreciation, nondividend distributions on stock, and stock splits.

Capital Loss Carryover Worksheet—Lines 6 and 14

Keep for Your Records



Use this worksheet to figure your capital loss carryovers from 2016 to 2017 if your 2016 Schedule D, line 21, is a loss and (a) that loss is a smaller loss than the loss on your 2016 Schedule D, line 16, or (b) the amount on your 2016 Form 1040, line 41 (or your 2016 Form 1040NR, line 39, if applicable) is less than zero. Otherwise, you don't have any carryovers.

If you and your spouse once filed a joint return and are filing separate returns for 2017, any capital loss carryover from the joint return can be deducted only on the return of the spouse who actually had the loss.

If you excluded canceled debt from income in 2017, see Pub. 4681.

1. Enter the amount from your 2016 Form 1040, line 41, or your 2016 Form 1040NR, line 39. If a loss, enclose the amount in parentheses	1.	<input type="text"/>
2. Enter the loss from your 2016 Schedule D, line 21, as a positive amount	2.	<input type="text"/>
3. Combine lines 1 and 2. If zero or less, enter -0-	3.	<input type="text"/>
4. Enter the smaller of line 2 or line 3	4.	<input type="text"/>
If line 7 of your 2016 Schedule D is a loss, go to line 5; otherwise, enter -0- on line 5 and go to line 9.		
5. Enter the loss from your 2016 Schedule D, line 7, as a positive amount	5.	<input type="text"/>
6. Enter any gain from your 2016 Schedule D, line 15. If a loss, enter -0-	6.	<input type="text"/>
7. Add lines 4 and 6	7.	<input type="text"/>
8. Short-term capital loss carryover for 2017. Subtract line 7 from line 5. If zero or less, enter -0-. If more than zero, also enter this amount on Schedule D, line 6	8.	<input type="text"/>
If line 15 of your 2016 Schedule D is a loss, go to line 9; otherwise, skip lines 9 through 13.		
9. Enter the loss from your 2016 Schedule D, line 15, as a positive amount	9.	<input type="text"/>
10. Enter any gain from your 2016 Schedule D, line 7. If a loss, enter -0-	10.	<input type="text"/>
11. Subtract line 5 from line 4. If zero or less, enter -0-	11.	<input type="text"/>
12. Add lines 10 and 11	12.	<input type="text"/>
13. Long-term capital loss carryover for 2017. Subtract line 12 from line 9. If zero or less, enter -0-. If more than zero, also enter this amount on Schedule D, line 14	13.	<input type="text"/>

Capital Gains and Losses

Learning Review

Capital Gains and Losses

1. Which form is used to report sales of stocks or mutual funds to the taxpayer?	
2. On which form of the tax return would you expect to see capital gain distributions?	
3. If a taxpayer does not know the basis for stock sold, what can they do?	
4. Inherited stock sold within one year is a short-term transaction. True/False	
5. How can you double check to make sure you have entered the stock transactions accurately?	
6. Which of the following sales are in scope for Tax-Aide?	
a. Inherited stock using FMV date of death or if taxpayer provides basis and holding period	
b. Stock received as a gift with basis	
c. No cost basis on the broker statement	
d. The sale of rental property	
e. Sale of stock options	
7. What are the steps to follow if a taxpayer has more than a few transactions and you want to enter the summarized totals?	
8. Thomas, aged 75, has a capital loss carry forward of \$78,000 and is thinking he won't file next year as he doesn't think he'll live long enough to use up his capital loss. He receives \$18,000 in Social security, a \$9,000 pension, has more stock to sell and owns a piece of land in Georgia. Should he file a return?	
9. On July 1, 2000, Fred bought 100 shares of AT&T for \$44/share. The brokerage fees were \$80. What is the cost basis for these shares of AT&T?	
10. On December 11, 2017 Jim's great uncle Philip died and Jim inherited 100 shares of XYZ stock. Phillip had purchased the stock for \$5.00 per share in 1952. The fair market value on the date of Phillip's death was \$20.00 per share. Jim sold all the stock on December 1, 2018. He received \$1,800 net proceeds after paying a \$50 commission. What is the cost basis, which Jim needs to report? Is the gain or loss on the sale of Jim's stock long-term or short-term?	
11. Tom and Helen received a 1099-B in their broker statement from ABC Investments. The Form 1099-B shows a transaction on February 1, 2018 for the sale of 100 shares of XYZ stock for \$2,000 (proceeds less commissions/net) with Code E, and showed it was acquired on September 16, 2009 with a basis of \$3,500. Tom and Helen tell you that the basis shown on the form does not reflect a \$50 fee they paid when purchased. How do you enter this information in TaxSlayer?	

Capital Gains and Losses

Answers to Learning Review

1. Brokers or transfer agents use Form 1099-B to report sales proceeds and other information as required. They often use their own substitute form.
2. Form 1040, Schedule D, Line 13.
3. Contact his broker to get the basis, determine the basis from the date it was purchased or inherited, or use zero (0).
4. False. Sale of an inherited asset is long term. The special rules for 2010 decedents has no effect as the holding period would now be more than one year.
5. Check two places in TaxSlayer "Quality Review Print Set". First, make sure that the total amounts that appear on lines 3 and 10 of schedule D agree with the total of the amounts shown on Forms 1099-B. Second, check that the Form 8949s match the amounts as reported in the Broker Statement.
6. In or out of scope: <ul style="list-style-type: none">a. Inherited stock – in scope. If inherited in 2010, taxpayer must provide basis or return is out of scope.b. Stock received as a gift – out of scope, unless taxpayer provides the acquisition date and basis (which depends on whether the disposition is at a gain or a loss).c. No cost basis on the broker statement – in scope if taxpayer provides the basis or uses zero.d. Sale of rental property – out of scope.e. Sale of stock options – out of scope (not a stock).
7. Make sure all the information is present on the documentation, or is provided by the taxpayer and add it onto the appropriate document(s). Follow the instructions in TaxSlayer Capital Gains Transaction screen. Transactions can be grouped by short or long term and whether basis was reported to the IRS or not (code letters A, B, D, or E on Form 8949). The grouped totals may be entered as single transactions using Adjustment Code M.
8. Thomas should file a return. When he sells the land or other stocks, he may have a capital gain which can be offset by his capital loss carryforward. If he fails to file, he may forget about the carry over in future years.
9. $(100 \text{ shares} \times \$44) + \$80 = \$4,480$.
10. Jim's basis is $\$2,000 = (100 \times \$20)$. Basis is established at the date of death. Broker must now report net proceeds, so no adjustment should be entered for the \$50 commission. The gain or loss for inherited property is long term. (Pub 17, Chapters 13 and 14)
11. On the TaxSlayer Capital Gains Transaction screen, enter the transaction as reported. Also enter an adjustment for the \$50 and select the appropriate adjustment description.