SCHEDULE D (Form 1120)

Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

To be filed with Forms 1120, 1120-A, 1120-DF, 1120-IC-DISC, 1120F, 1120-FSC, 1120-H, 1120L, 1120-ND, 1120-PC, 1120-POL, 1120-REIT, 1120-RIC, 990-C, and certain Forms 990-T

OMB No. 1545-0123

1988

Name

Employer identification number

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less (Six months or less if acquired before 1/1/88)

(a) Kind of property and description (Example, 100 shares of "Z" Co.)	**(b)** Date acquired (mo., day, yr.)	**(c)** Date sold (mo., day, yr.)	**(d)** Gross sales price	**(e)** Cost or other basis, plus expense of sale	**(f)** Gain (or loss) ((d) less (e))
1					

2 Short-term capital gain from installment sales from Form 6252, line 22 or 30	2	
3 Unused capital loss carryover (attach computation)	3	(
4 Net short-term capital gain or (loss)	4	

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year (More than six months if acquired before 1/1/88)

5					

6 Enter gain from Form 4797, line 7 or 9	6	
7 Long-term capital gain from installment sales from Form 6252, line 22 or 30	7	
8 Net long-term capital gain or (loss)	8	

Part III Summary of Parts I and II

9 Enter excess of net short-term capital gain (line 4) over net long-term capital loss (line 8)	9	
10 Net capital gain. Enter excess of net long-term capital gain (line 8) over net short-term capital loss (line 4)	10	
11 Total of lines 9 and 10. Enter here and on Form 1120, line 8, page 1; or the proper line on other returns	11	

***Note:** If losses exceed gains, see instructions on capital losses for explanation of capital loss carrybacks.*

Instructions

(Section references are to the Internal Revenue Code unless otherwise noted.)

Purpose of Form

This Schedule D should be used by a taxpayer whose tax year begins in 1988 and who files either Forms 1120, 1120-A, 1120-DF, 1120-IC-DISC, 1120F, 1120-FSC, 1120-H, 1120L, 1120-ND, 1120-PC, 1120-POL, 1120-REIT, 1120-RIC, 990-C, or certain Forms 990-T, to report sales or exchanges of capital assets. Sales or exchanges of property other than capital assets, including property used in a trade or business, involuntary conversions (other than casualties or thefts), gain from the disposition of interest in oil, gas, or geothermal property, and the section 291 adjustment to section 1250 gains should be reported on **Form 4797,** Sales of Business Property. See the instructions for Form 4797 for more information.

If property is involuntarily converted because of a casualty or theft, use **Form 4684,** Casualties and Thefts.

Parts I and II

Generally, a corporation should report sales and exchanges, including "like-kind" exchanges, even though there is no gain or loss. No loss is allowed for a wash sale of stock or securities or from a transaction between related persons (sections 1091 and 267).

In Part I, report the sale or exchange of capital assets held one year or less. In Part II, report the sale or exchange of capital assets held more than one year. For property acquired before January 1, 1988, the holding period is 6 months.

What Are Capital Assets?—Each item of property the corporation held (whether or not connected with its trade or business) is a capital asset except:

1. Assets that can be inventoried or property held mainly for sale to customers.
2. Depreciable or real property used in the trade or business.
3. Certain copyrights; literary, musical, or artistic compositions; letters or memorandums; or similar property.

4. Accounts or notes receivable acquired in the ordinary course of trade or business for services rendered or from the sale of property described in 1 above.
5. A U.S. Government publication (including the Congressional Record) received from the Government or any of its agencies in a manner other than by buying it at the price offered for public sale, which is held by a taxpayer who received the publication or by a second taxpayer in whose hands the basis of the publication is determined, for purposes of determining gain from a sale or exchange, by referring to its basis in the hands of the first taxpayer.

Exchange of "like-kind" property.—Report the exchange of "like-kind" property on Schedule D or on Form 4797, whichever applies. The corporation must report it even though no gain or loss is recognized when business or investment property is exchanged for property of "like-kind." (This does not include stock in trade or other property held primarily for sale. It also does not include stocks, bonds, notes, choses in action, certificates of trust or beneficial interest, or other securities or evidences of indebtedness. Generally, it does not include exchanges of partnership interests. See section 1031.)

If Schedule D is used, identify in column (a) the property disposed of. Enter the date it was acquired in column (b), and the date it was exchanged in column (c). Write "like-kind exchange" in column (d). Enter the cost or other basis in column (e). Enter zero in column (f).

Special Rules for the Treatment of Certain Gains and Losses

Note: *For more information, get **Publication 544,** Sales and Other Dispositions of Assets, and **Publication 542,** Tax Information on Corporations.*

- **Gains and losses from passive activities.**—A closely held or personal service corporation that has a gain or loss which relates to a passive activity (section 469) may be required to complete **Form 8810,** Corporate Passive Activity Loss and Credit Limitations, before completing Schedule D. See Form 8810 for details.
- **Gain on distributions of appreciated property.**—Generally, gain (but not loss) is recognized on a nonliquidating distribution of appreciated property to the extent that the property's fair market value exceeds its adjusted basis. See section 311 for more information.
- **Gain or loss on distribution of property in complete liquidation.**—Generally, gain or loss is recognized by a corporation upon the liquidating distribution of property as if it had sold the property at its fair market value. An exception to this rule applies for liquidations of certain subsidiaries. See sections 336 and 337 for more information and other exceptions to the general rules. In addition, the special nonrecognition rules governing 12-month liquidations have been repealed. However, section 633(d) of the Tax Reform Act of 1986 provides a transition rule for certain qualified small corporations that completely liquidate before January 1, 1989. These corporations should get **Form 964-A,** Computation of Gain or Loss Recognized by Qualified Corporations on Complete Liquidation, to compute their gain or loss before completing Schedule D.
- **Gains and losses on section 1256 contracts and straddles.**—Use **Form 6781,** Gains and Losses From Section 1256 Contracts and Straddles, to report gains and losses from section 1256 contracts and straddles.
- **Gain or loss on certain short-term Federal, state, and municipal obligations.**—Such obligations are treated as capital assets in determining gain or loss. On any gain realized, a portion is treated as ordinary income and the balance is considered as a short-term capital gain. See section 1271.
- **Gain from installment sales.**—If a corporation has a gain this year from the sale of real property or a casual sale of personal property other than inventory and is to receive any payment in a later year, it must use the installment method (unless it elects not to) and file **Form 6252,** Installment Sale Income. Also use Form 6252 if a payment is received this year from a sale made in an earlier year on the installment basis.

The corporation may elect out of the installment method by doing the following on a timely filed return (including extensions):

1. Report the full amount of the sale on Schedule D.
2. If the corporation received a note or other obligation and is reporting it at less than face value (including all contingent obligations), state that fact in the margin and give the percentage of valuation.

The installment method may not be used for sales of stock or securities (or certain other property described in the regulations) traded on an established securities market. See section 453(k).

- **Gain or loss on an option to buy or sell property.**—See sections 1032 and 1234 for the rules that apply to a purchaser or grantor of an option.
- **Gain or loss from a short sale of property.**— Report the gain or loss to the extent that the property used to close the short sale is considered a capital asset in the hands of the taxpayer.
- **Gains and losses of foreign corporations from the disposition of investment in United States real property.**—Foreign corporations are required to report gains and losses from the disposition of U.S. real property interests. See section 897 for details.
- **Gains on certain insurance property.**—Form 1120L filers with gains on property held on December 31, 1958, and certain substituted property acquired after 1958 should see section 818(c).
- **Loss from the sale or exchange of capital assets of an insurance company taxable under section 831.**—Under the provisions of section 834(c)(6), the capital losses of a property and casualty insurance company are deductible to the extent that the assets were sold to meet abnormal insurance losses or to provide for the payment of dividend and similar distributions to policyholders.
- **Loss from securities that are capital assets that become worthless during the year.**— Except for securities held by a bank, treat the loss as a capital loss as of the last day of the tax year. (See section 582 for the rules on the treatment of securities held by a bank.)
- **Nonrecognition of gain on sale of stock to an ESOP.**—See section 1042 for rules under which a taxpayer may elect not to recognize gain from the sale of certain stock to an employee stock ownership plan (ESOP).
- **Disposition of market discount bonds.**— See section 1276 for rules on the disposition of any market discount bonds that were issued after July 18, 1984.
- **Capital gain distributions.**— Report capital gain distributions paid by mutual funds as long-term capital gains on line 5 regardless of how long the corporation owned stock in the fund.

How To Determine the Cost or Other Basis of the Property

In determining gain or loss, the basis of property will generally be its cost (section 1012). The exceptions to the general rule are provided in sections contained in subchapters C, K, O, and P of the Code. For example, if the corporation acquired the property by dividend, liquidation of a corporation, transfer from a shareholder, reorganization, contribution or gift, bequest, bankruptcy, tax-free exchange, involuntary conversion, certain asset acquisitions, or wash sale of stock, see sections 301 (or 1059), 334, 362 (or 358), 1014, 1015, 372 (or 374), 1031, 1033, 1060, and 1091, respectively. Attach an explanation if the corporation uses a basis other than actual cash cost of the property.

If the corporation is allowed a charitable contribution deduction because it sold property to a charitable organization, figure the adjusted basis for determining gain from the sale by dividing the amount realized by the fair market value and multiplying that result by the adjusted basis.

Capital losses.—The amount of capital losses allowed may not be more than capital gains. A net capital loss may be carried back 3 years and forward 5 years as a short-term capital loss. Carry back a capital loss to the extent it does not increase or produce a net operating loss in the tax year to which it is carried. Foreign expropriation capital losses may not be carried back, but may be carried forward 10 years instead of 5. A net capital loss for a regulated investment company may be carried forward 8 years instead of 5.

At-risk limitations (section 465).—If the corporation sold or exchanged an asset used in an activity to which the at-risk rules apply, combine the gain or loss on the sale or exchange with the profit or loss from the activity. If the result is a net loss from the activity, it may be subject to the at-risk rules.