SCHEDULE D (Form 1120)

Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

► Attach to Form 1120, 1120-A, 1120-F, 1120-FSC, 1120-H, 1120-IC-DISC, 1120-L, 1120-ND, 1120-PC, 1120-POL, 1120-REIT, 1120-RIC, 1120-SF, 990-C, or certain Forms 990-T.

OMB No. 1545-0123

2001

Name | Employer identification number

Part I — Short-Term Capital Gains and Losses—Assets Held One Year or Less

(a) Description of property (Example: 100 shares of Z Co.)	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Sales price (see instructions)	(e) Cost or other basis (see instructions)	(f) Gain or (loss) (Subtract (e) from (d))
1					

2	Short-term capital gain from installment sales from Form 6252, line 26 or 37	2	
3	Short-term gain or (loss) from like-kind exchanges from Form 8824	3	
4	Unused capital loss carryover (attach computation)	4	( )
5	Net short-term capital gain or (loss). Combine lines 1 through 4	5	

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

(a)	(b)	(c)	(d)	(e)	(f)
6					

7	Enter gain from Form 4797, column (g), line 7 or 9	7	
8	Long-term capital gain from installment sales from Form 6252, line 26 or 37	8	
9	Long-term gain or (loss) from like-kind exchanges from Form 8824	9	
10	Capital gain distributions (see instructions)	10	
11	Net long-term capital gain or (loss). Combine lines 6 through 10	11	

Part III — Summary of Parts I and II

12	Enter excess of net short-term capital gain (line 5) over net long-term capital loss (line 11)	12	
13	Net capital gain. Enter excess of net long-term capital gain (line 11) over net short-term capital loss (line 5)	13	
14	Add lines 12 and 13. Enter here and on Form 1120, page 1, line 8, or the proper line on other returns	14	

Note: *If losses exceed gains, see **Capital losses** in the instructions on page 2.*

General Instructions

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

Purpose of Schedule

Use Schedule D to report sales and exchanges of capital assets and gains on distributions to shareholders of appreciated capital assets.

Note: *For more information, see **Pub. 544,** Sales and Other Dispositions of Assets.*

Other Forms the Corporation May Have To File

Use **Form 4797,** Sales of Business Property, to report the following:

- The sale or exchange of:

  1. Property used in a trade or business;

  2. Depreciable and amortizable property;

  3. Oil, gas, geothermal, or other mineral property; and

  4. Section 126 property.

- The involuntary conversion (other than from casualty or theft) of property and capital assets held for business or profit.
- The disposition of noncapital assets other than inventory or property held primarily for sale to customers in the ordinary course of the corporation's trade or business.
- The section 291 adjustment to section 1250 property.

Use **Form 4684,** Casualties and Thefts, to report involuntary conversions of property due to casualty or theft.

Use **Form 6781,** Gains and Losses From Section 1256 Contracts and Straddles, to report gains and losses from section 1256 contracts and straddles.

Use **Form 8824,** Like-Kind Exchanges, if the corporation made one or more "like-kind" exchanges. A like-kind exchange occurs when the corporation exchanges business or investment property for property of a like kind. For exchanges of capital assets, include the gain or (loss) from Form 8824, if any, on line 3 or line 9.

Capital assets

Each item of property the corporation held (whether or not connected with its trade or business) is a capital asset **except:**

- Stock in trade or other property included in inventory or held mainly for sale to customers.
- Accounts or notes receivable acquired in the ordinary course of the trade or business for services rendered or from the sale of stock in trade or other property included in inventory or held mainly for sale to customers.
- Depreciable or real property used in the trade or business, even if it is fully depreciated.
- Certain copyrights; literary, musical, or artistic compositions; letters or memoranda; or similar property. See section 1221(a)(3).
- U.S. Government publications, including the Congressional Record, that the corporation received from the Government, other than by purchase at the normal sales price, or that the corporation got from another taxpayer who had received it in a similar way, if the corporation's basis is determined by reference to the previous owner's basis.
- Certain commodities derivative financial instruments held by a dealer. See section 1221(a)(6).
- Certain hedging transactions entered into in the normal course of the trade or business. See section 1221(a)(7).
- Supplies regularly used in the trade or business.

Capital losses. Capital losses are allowed only to the extent of capital gains. A net capital loss is 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 cannot be carried back, but are carried forward 10 years. A net capital loss of a regulated investment company (RIC) is carried forward 8 years.

Items for Special Treatment

Gain from installment sales. If the corporation sold property at a gain and it will receive a payment in a tax year after the year of sale, it generally must report the sale on the installment method unless it elects not to. However, the installment method may not be used to report sales of stock or securities traded on an established securities market.

Use **Form 6252,** Installment Sale Income, to report the sale on the installment method. Also use Form 6252 to report any payment received during the tax year from a sale made in an earlier year that was reported on the installment method. To elect out of the installment method, report the full amount of the gain on Schedule D for the year of the sale on a return filed by the due date (including extensions). If the original return was filed on time without making the election, the corporation may make the election on an amended return filed no later than 6 months after the original due date (excluding extensions). Write "Filed pursuant to section 301.9100-2" at the top of the amended return.

Gain from qualified empowerment zone assets. If the corporation sold at a gain qualified empowerment zone assets acquired after December 21, 2000, that it held for more than one year, the corporation may be able to elect to postpone part or all of the gain. See **Pub. 954,** Tax Incentives for Empowerment Zones and Other Distressed Communities, and **Pub. 550,** Investment Income and Expenses, for more 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 (FMV) exceeds its adjusted basis. See section 311.

Gain on the constructive sale of certain appreciated financial positions. Generally, if the corporation holds an appreciated financial position in stock or certain other interests, it may have to recognize gain (but not loss) if it enters into a constructive sale (such as a "short sale against the box"). See Pub. 550.

Gain from certain constructive ownership transactions. Gain in excess of the underlying net long-term capital gain the corporation would have recognized if it had held a financial asset directly during the term of a derivative contract must be treated as ordinary income. See section 1260. If any portion of the constructive ownership transaction was open in any prior year, the corporation may have to pay interest. See section 1260(b) for details, including how to figure the interest. Include the interest as an additional tax on Form 1120, Schedule J, line 10 (or the applicable line for other income tax returns). Write "Section 1260(b) interest" and the amount of the interest to the left of line 10, Schedule J.

Election by RICs and REITs to recognize gain on assets held on January 1, 2001. RICs and REITs may elect to treat certain assets held on January 1, 2001, as having been sold and then reacquired on the same date. The purpose of the election is to make future gain on the asset eligible for an 18% (instead of 20%) capital gain tax rate at the shareholder level to the extent the gain is designated under section 852(b)(3) or 857(b)(3) by the RIC or REIT as a capital gain distribution. The 18% rate is applicable to the extent the gain would otherwise be taxed to the shareholder at 20% if the holding period of the asset begins after December 31, 2000, and the asset is held for more than 5 years.

Any gain on the deemed sale **must** be recognized without regard to any provision of the Internal Revenue Code. A loss from a deemed sale is not allowed in any tax year, but the asset will be eligible for the 18% rate on any future gain. The basis in the reacquired asset is its closing market price or fair market value, whichever applies, on the date of the deemed sale, whether the deemed sale results in a gain or an unallowed loss.

Any readily tradable stock (that is a capital asset) not sold before January 2, 2001, for which the election is made is deemed to have been sold on January 2, 2001, at its closing market price on that date and reacquired on that date for the same amount. For this purpose, readily tradable stock includes shares issued by an open-end mutual fund. Any other capital asset or property used in a trade or business (section 1231 property) held on January 1, 2001, for which the election is made is deemed to have been sold and reacquired on January 1, 2001, for its fair market value on that date.

Pass-through entities include mutual funds (or other regulated investment companies), real estate investment trusts, S corporations, partnerships, estates, trusts, and common trust funds. If the RIC or REIT makes the election with respect to an interest in another pass-through entity and that pass-through entity makes the election with respect to assets it holds, that pass-through entity's election will be considered to immediately precede the RIC's or

REIT's election for deemed sales that occur on the same day.

To make the election, report the deemed sale(s) on the tax return for the RIC's or REIT's tax year that include the date of the deemed sales. If the deemed sale results in a loss, enter zero instead of the amount of the loss. Attach a statement to the return stating that the RIC or REIT is making an election under section 311 of the Taxpayer Relief Act of 1997 and listing the assets for which the election is being made. File Form 1120-RIC or 1120-REIT no later than its due date (including extensions). However, if the return was timely filed without making the election for one or more eligible assets, the election for those assets can still be made by filing an amended return within 6 months of the due date of the tax return (excluding extensions). Write "Election Under Section 311 of the Taxpayer Relief Act of 1997" at the top of the amended return. Once made, an election for any asset is irrevocable.

Note: *The RIC or REIT may not make this election for any asset it disposed of (in a transaction in which gain or loss is recognized in whole or in part) before the close of the 1-year period beginning on the date that the asset would have been treated as sold under this election.*

Rollover of publicly traded securities gain into specialized small business investment companies (SSBICs). If the corporation sold publicly traded securities, it may elect to postpone all or part of the gain on that sale if it bought common stock or a partnership interest in an SSBIC during the 60-day period that began on the date of the sale. An SSBIC is any partnership or corporation licensed by the Small Business Administration under section 301(d) of the Small Business Investment Act of 1958. The corporation must recognize gain to the extent the sale proceeds exceed the cost (not taken into account previously) of its SSBIC stock or partnership interest purchased during the 60-day period that began on the date of the sale. The gain a corporation may postpone each tax year is limited to the **smaller** of **(a)** $250,000 or **(b)** $1 million, reduced by the gain previously excluded under section 1044(a). Reduce the basis of the SSBIC stock or partnership interest by any postponed gain.

The corporation must make the election no later than the due date (including extensions) for filing its tax return for the year in which it sold the securities or partnership interest. If the corporation's original return was filed on time, make the election on an amended return filed no later than 6 months after the due date of the corporation's return (excluding extensions). Write "Filed pursuant to section 301.9100-2" at the top of the amended return, and file it at the same address used for the original return.

To make the election, report the entire gain realized on the sale on line 1 or 6, whichever applies, in column (f). Directly below the line on which the gain is reported, enter in column (a), "SSBIC Rollover." Enter the amount of the postponed gain (in parentheses) in column (f). Also attach a schedule showing **(a)** how the postponed gain was figured, **(b)** the name of the SSBIC stock in which the common stock or partnership interest was purchased, **(c)** the date of that purchase, and **(d)** the new basis in that SSBIC stock or partnership interest. For more details, see section 1044 and Regulations section 1.1044(a)-1.

Gain on disposition of market discount bonds. See section 1276 for rules on the disposition of market discount bonds.

Gains on certain insurance property. Form 1120-L filers with gains on property held on December 31, 1958, and certain substituted property acquired after 1958, should see section 818(c).

Gains and losses from passive activities. A closely held or personal service corporation that has a gain or loss that relates to a passive activity (section 469) may be required to complete **Form 8810,** Corporate Passive Activity Loss and Credit Limitation, before completing Schedule D. A Schedule D loss may be limited under the passive activity rules. See Form 8810.

Gains and losses of foreign corporations from the disposition of investment in U.S. real property. Foreign corporations are required to report gains and losses from the disposition of U.S. real property interests. See section 897.

Gain or loss on distribution of property in complete liquidation. Generally, gain or loss is recognized on property distributed in a complete liquidation. Treat the property as if it had been sold at its FMV. 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.

Gain or loss on certain asset transfers to a tax-exempt entity. A taxable corporation that transfers all or substantially all of its assets to a tax-exempt entity or converts from a taxable corporation to a tax-exempt entity in a transaction other than a liquidation generally must recognize gain or loss as if it had sold the assets transferred at their FMV. For details, see Regulations section 1.337(d)-4.

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 or a securities futures contract (as defined in section 1234B). See Pub. 550 for details.

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.

Gain or loss on certain short-term Federal, state, and municipal obligations. These 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 as a short-term capital gain. See section 1271.

At-risk limitations (section 465). If the corporation sold or exchanged a capital 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, complete **Form 6198**, At-Risk Limitations. Report any gain from the capital asset on Schedule D and on Form 6198.

Loss from a sale or exchange between the corporation and a related person. Except for distributions in complete liquidation of a corporation, no loss is allowed from the sale or exchange of property between the corporation and certain related persons. See section 267.

Loss from a wash sale. The corporation cannot deduct a loss from a wash sale of stock or securities (including contracts or options to acquire or sell stock or securities) unless the corporation is a dealer in stock or securities and the loss was sustained in a transaction made in the ordinary course of the corporation's trade or business. A wash sale occurs if the corporation acquires (by purchase or exchange), or has a contract or option to acquire, substantially identical stock or securities within 30 days before or after the date of the sale or exchange. See section 1091.

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.

Losses limited after an ownership change or aquisition. If the corporation has undergone an "ownership change" as defined in section 382(g), section 383 may limit the amount of capital gains that may be offset by pre-change capital losses. Also, if a corporation acquires control of another corporation (or acquires its assets in a reorganization), section 384 may limit the amount of recognized built-in capital gains that may be offset by pre-aquisition capital losses.

Loss from the sale or exchange of capital assets of an insurance company taxable under section 831. Capital losses of a 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. See section 834(c)(6).

Specific Instructions

Parts I and II

Generally, a corporation must report sales and exchanges even if there is no gain or loss. Use Part I to report the sale, exchange, or distribution of capital assets held 1 year or less. Use Part II to report the sale, exchange, or distribution of capital assets held more than 1 year. Use the trade dates for the dates of acquisition and sale of stocks and bonds traded on an exchange or over-the-counter market. Generally, report sales or exchanges (including like-kind exchanges) even if there is no gain or loss. In Part I, report the sale, exchange, or distribution of capital assets held 1 year or less. In Part II, report the sale, exchange, or distribution of capital assets held more than 1 year. Use the trade dates for the dates of acquisition and sale of stock and bonds traded on an exchange or over the counter.

Column (d)—Sales price. Enter either the gross sales price or the net sales price. If the net sales price is entered, do not increase the cost or other basis in column (e) by any expenses reflected in the net sales price.

Column (e)—Cost or other basis. In general, the basis of property is its cost. See section 1012 and the related regulations. Special rules for determining basis are provided in sections in subchapters C, K, O, and P of the Code. These rules may apply to the:

- Receipt of certain distributions with respect to stock (section 301 or 1059),
- Liquidation of another corporation (section 334),
- Transfer to another corporation (section 358),
- Transfer from a shareholder or reorganization (section 362),
- Bequest (section 1014),
- Contribution or gift (section 1015),
- Tax-free exchange (section 1031),
- Involuntary conversion (section 1033),
- Certain asset acquisitions (section 1060), or
- Wash sale of stock (section 1091).

Attach an explanation if the corporation uses a basis other than actual cost of the property.

Before making an entry in column (e), increase the cost or other basis by any expense of sale, such as broker's fees, commissions, state and local transfer taxes, and option premiums, unless the net sales price was reported in column (d).

If the corporation is allowed a charitable contribution deduction because it sold property in a bargain sale to a charitable organization, figure the adjusted basis for determining gain from the sale by dividing the amount realized by the FMV and multiplying that result by the adjusted basis. No loss is allowed in a bargain sale to a charity.

See section 852(f) for the treatment of certain load charges incurred in acquiring stock in a RIC with a reinvestment right.

Line 10. Enter the total capital gain distributions paid by a RIC or REIT during the year, regardless of how long the corporation owned stock in the RIC or REIT.

Also enter any amount received from a RIC or REIT that qualifies as a distribution in complete liquidation under section 332(b) and is designated by the RIC or REIT as a capital gain distribution. See section 332(c).