

## SUBCHAPTER A—INCOME TAX (CONTINUED)

### PART 1—INCOME TAXES

#### NORMAL TAXES AND SURTAXES (CONTINUED)

#### GAIN OR LOSS ON DISPOSITION OF PROPERTY

##### DETERMINATION OF AMOUNT OF AND RECOGNITION OF GAIN OR LOSS

###### Sec.

- 1.1001-1 Computation of gain or loss.
- 1.1001-2 Discharge of liabilities.
- 1.1001-3 Modifications of debt instruments.
- 1.1001-4 Modifications of certain notional principal contracts.
- 1.1001-5 European Monetary Union (conversion to the euro).
- 1.1002-1 Sales or exchanges.

##### BASIS RULES OF GENERAL APPLICATION

- 1.1011-1 Adjusted basis.
- 1.1011-2 Bargain sale to a charitable organization.
- 1.1012-1 Basis of property.
- 1.1012-2 Transfers in part a sale and in part a gift.
- 1.1013-1 Property included in inventory.
- 1.1014-1 Basis of property acquired from a decedent.
- 1.1014-2 Property acquired from a decedent.
- 1.1014-3 Other basis rules.
- 1.1014-4 Uniformity of basis; adjustment to basis.
- 1.1014-5 Gain or loss.
- 1.1014-6 Special rule for adjustments to basis where property is acquired from a decedent prior to his death.
- 1.1014-7 Example applying rules of §§1.1014-4 through 1.1014-6 to case involving multiple interests.
- 1.1014-8 Bequest, devise, or inheritance of a remainder interest.
- 1.1014-9 Special rule with respect to DISC stock.
- 1.1015-1 Basis of property acquired by gift after December 31, 1920.
- 1.1015-2 Transfer of property in trust after December 31, 1920.
- 1.1015-3 Gift or transfer in trust before January 1, 1921.
- 1.1015-4 Transfers in part a gift and in part a sale.
- 1.1015-5 Increased basis for gift tax paid.
- 1.1016-1 Adjustments to basis; scope of section.
- 1.1016-2 Items properly chargeable to capital account.
- 1.1016-3 Exhaustion, wear and tear, obsolescence, amortization, and depletion for periods since February 28, 1913.
- 1.1016-3T Exhaustion, wear and tear, obsolescence, amortization, and depletion for

periods since February 28, 1913 (temporary).

- 1.1016-4 Exhaustion, wear and tear, obsolescence, amortization, and depletion; periods during which income was not subject to tax.
- 1.1016-5 Miscellaneous adjustments to basis.
- 1.1016-6 Other applicable rules.
- 1.1016-10 Substituted basis.
- 1.1017-1 Basis reductions following a discharge of indebtedness.
- 1.1017-1T Basis reductions following a discharge of indebtedness (temporary).
- 1.1018-1 Adjusted basis; exception to section 270 of the Bankruptcy Act, as amended.
- 1.1019-1 Property on which lessee has made improvements.
- 1.1020-1 Election as to amounts allowed in respect of depreciation, etc., before 1952.
- 1.1021-1 Sale of annuities.

##### COMMON NONTAXABLE EXCHANGES

- 1.1031-0 Table of contents.
- 1.1031(a)-1 Property held for productive use in trade or business or for investment.
- 1.1031(a)-2 Additional rules for exchanges of personal property.
- 1.1031(b)-1 Receipt of other property or money in tax-free exchange.
- 1.1031(b)-2 Safe harbor for qualified intermediaries.
- 1.1031(c)-1 Nonrecognition of loss.
- 1.1031(d)-1 Property acquired upon a tax-free exchange.
- 1.1031(d)-1T Coordination of section 1060 with section 1031 (temporary).
- 1.1031(d)-2 Treatment of assumption of liabilities.
- 1.1031(e)-1 Exchange of livestock of different sexes.
- 1.1031(j)-1 Exchanges of multiple properties.
- 1.1031(k)-1 Treatment of deferred exchanges.
- 1.1032-1 Disposition by a corporation of its own capital stock.
- 1.1032-2 Disposition by a corporation of stock of a controlling corporation in certain triangular reorganizations.
- 1.1032-3 Disposition of stock or stock options in certain transactions not qualifying under any other nonrecognition provision.
- 1.1033(a)-1 Involuntary conversions; nonrecognition of gain.
- 1.1033(a)-2 Involuntary conversion into similar property, into money or into dissimilar property.
- 1.1033(a)-3 Involuntary conversion of principal residence.
- 1.1033(b)-1 Basis of property acquired as a result of an involuntary conversion.

- 1.1033(c)-1 Disposition of excess property within irrigation project deemed to be involuntary conversion.
- 1.1033(d)-1 Destruction or disposition of livestock because of disease.
- 1.1033(e)-1 Sale or exchange of livestock solely on account of drought.
- 1.1033(g)-1 Condemnation of real property held for productive use in trade or business or for investment.
- 1.1033(h)-1 Effective date.
- 1.1034-1 Sale or exchange of residence.
- 1.1035-1 Certain exchanges of insurance policies.
- 1.1036-1 Stock for stock of the same corporation.
- 1.1037-1 Certain exchanges of United States obligations.
- 1.1038-1 Reacquisitions of real property in satisfaction of indebtedness.
- 1.1038-2 Reacquisition and resale of property used as a principal residence.
- 1.1038-3 Election to have section 1038 apply for taxable years beginning after December 31, 1957.
- 1.1039-1 Certain sales of low-income housing projects.
- 1.1041-1T Treatment of transfer of property between spouses or incident to divorce (temporary).
- 1.1041-2 Redemptions of stock.
- 1.1042-1T Questions and answers relating to the sales of stock to employee stock ownership plans or certain cooperatives (temporary).
- 1.1044(a)-1 Time and manner for making election under the Omnibus Budget Reconciliation Act of 1993.

## SPECIAL RULES

- 1.1051-1 Basis of property acquired during affiliation.
- 1.1052-1 Basis of property established by Revenue Act of 1932.
- 1.1052-2 Basis of property established by Revenue Act of 1934.
- 1.1052-3 Basis of property established by the Internal Revenue Code of 1939.
- 1.1053-1 Property acquired before March 1, 1913.
- 1.1054-1 Certain stock of Federal National Mortgage Association.
- 1.1055-1 General rule with respect to redeemable ground rents.
- 1.1055-2 Determination of amount realized on the transfer of the right to hold real property subject to liabilities under a redeemable ground rent.
- 1.1055-3 Basis of real property held subject to liabilities under a redeemable ground rent.
- 1.1055-4 Basis of redeemable ground rent reserved or created in connection with transfers of real property before April 11, 1963.
- 1.1059(e)-1 Non-pro rata redemptions.

- 1.1059A-1 Limitation on taxpayer's basis or inventory cost in property imported from related persons.
- §1.1060-1 Special allocation rules for certain asset acquisitions.

## CHANGES TO EFFECTUATE F.C.C. POLICY

- 1.1071-1 Gain from sale or exchange to effectuate policies of Federal Communications Commission.
- 1.1071-2 Nature and effect of election.
- 1.1071-3 Reduction of basis of property pursuant to election under section 1071.
- 1.1071-4 Manner of election.

## EXCHANGES IN OBEDIENCE TO S.E.C. ORDERS

- 1.1081-1 Terms used.
- 1.1081-2 Purpose and scope of exception.
- 1.1081-3 Exchanges of stock or securities solely for stock or securities.
- 1.1081-4 Exchanges of property for property by corporations.
- 1.1081-5 Distribution solely of stock or securities.
- 1.1081-6 Transfers within system group.
- 1.1081-7 Sale of stock or securities received upon exchange by members of system group.
- 1.1081-8 Exchanges in which money or other nonexempt property is received.
- 1.1081-9 Requirements with respect to order of Securities and Exchange Commission.
- 1.1081-10 Nonapplication of other provisions of the Internal Revenue Code of 1954.
- 1.1081-11 Records to be kept and information to be filed with returns.
- 1.1082-1 Basis for determining gain or loss.
- 1.1082-2 Basis of property acquired upon exchanges under section 1081 (a) or (e).
- 1.1082-3 Reduction of basis of property by reason of gain not recognized under section 1081(b).
- 1.1082-4 Basis of property acquired by corporation under section 1081(a), 1081(b), or 1081(e) as contribution of capital or surplus, or in consideration for its own stock or securities.
- 1.1082-5 Basis of property acquired by shareholder upon tax-free distribution under section 1081(c) (1) or (2).
- 1.1082-6 Basis of property acquired under section 1081(d) in transactions between corporations of the same system group.
- 1.1083-1 Definitions.

## WASH SALES OF STOCK OR SECURITIES

- 1.1091-1 Losses from wash sales of stock or securities.
- 1.1091-2 Basis of stock or securities acquired in "wash sales".
- 1.1092(b)-1T Coordination of loss deferral rules and wash sale rules (temporary).
- 1.1092(b)-2T Treatment of holding periods and losses with respect to straddle positions (temporary).

## Internal Revenue Service, Treasury

## Pt. 1

- 1.1092(b)-3T Mixed straddles; straddle-by-straddle identification under section 1092(b)(2)(A)(i)(I) (temporary).
  - 1.1092(b)-4T Mixed straddles; mixed straddle account (temporary).
  - 1.1092(b)-5T Definitions (temporary).
  - 1.1092(c)-1 Qualified covered calls.
  - 1.1092(c)-2 Equity options with flexible terms.
  - 1.1092(c)-3 Qualifying over-the-counter options.
  - 1.1092(c)-4 Definitions.
  - 1.1092(d)-1 Definitions and special rules.
  - 1.1092(d)-2 Personal property.
- CAPITAL GAINS AND LOSSES
- TREATMENT OF CAPITAL GAINS
- 1.1201-1 Alternative tax.
  - 1.1202-0 Table of contents.
  - 1.1202-1 Deduction for capital gains.
  - 1.1202-2 Qualified small business stock; effect of redemptions.
- TREATMENT OF CAPITAL LOSSES
- 1.1211-1 Limitation on capital losses.
  - 1.1212-1 Capital loss carryovers and carrybacks.
- GENERAL RULES FOR DETERMINING CAPITAL GAINS AND LOSSES
- 1.1221-1 Meaning of terms.
  - 1.1221-2 Hedging transactions.
  - 1.1222-1 Other terms relating to capital gains and losses.
  - 1.1223-1 Determination of period for which capital assets are held.
  - 1.1223-3 Rules relating to the holding periods of partnership interests.
- SPECIAL RULES FOR DETERMINING CAPITAL GAINS AND LOSSES
- 1.1231-1 Gains and losses from the sale or exchange of certain property used in the trade or business.
  - 1.1231-2 Livestock held for draft, breeding, dairy, or sporting purposes.
  - 1.1232-1 Bonds and other evidences of indebtedness; scope of section.
  - 1.1232-2 Retirement.
  - 1.1232-3 Gain upon sale or exchange of obligations issued at a discount after December 31, 1954.
  - 1.1232-3A Inclusion as interest of original issue discount on certain obligations issued after May 27, 1969.
  - 1.1232-4 Obligations with excess coupons detached.
  - 1.1233-1 Gains and losses from short sales.
  - 1.1233-2 Hedging transactions.
  - 1.1234-1 Options to buy or sell.
  - 1.1234-2 Special rule for grantors of straddles applicable to certain options granted on or before September 1, 1976.
  - 1.1234-3 Special rules for the treatment of grantors of certain options granted after September 1, 1976.
  - 1.1234-4 Hedging transactions.
  - 1.1235-1 Sale or exchange of patents.
  - 1.1235-2 Definition of terms.
  - 1.1236-1 Dealers in securities.
  - 1.1237-1 Real property subdivided for sale.
  - 1.1238-1 Amortization in excess of depreciation.
  - 1.1239-1 Gain from sale or exchange of depreciable property between certain related taxpayers after October 4, 1976.
  - 1.1239-2 Gain from sale or exchange of depreciable property between certain related taxpayers on or before October 4, 1976.
  - 1.1240-1 Capital gains treatment of certain termination payments.
  - 1.1241-1 Cancellation of lease or distributor's agreement.
  - 1.1242-1 Losses on small business investment company stock.
  - 1.1243-1 Loss of small business investment company.
  - 1.1244(a)-1 Loss on small business stock treated as ordinary loss.
  - 1.1244(b)-1 Annual limitation.
  - 1.1244(c)-1 Section 1244 stock defined.
  - 1.1244(c)-2 Small business corporation defined.
  - 1.1244(d)-1 Contributions of property having basis in excess of value.
  - 1.1244(d)-2 Increases in basis of section 1244 stock.
  - 1.1244(d)-3 Stock dividend, recapitalizations, changes in name, etc.
  - 1.1244(d)-4 Net operating loss deduction.
  - 1.1244(e)-1 Records to be kept.
  - 1.1245-1 General rule for treatment of gain from dispositions of certain depreciable property.
  - 1.1245-2 Definition of recomputed basis.
  - 1.1245-3 Definition of section 1245 property.
  - 1.1245-4 Exceptions and limitations.
  - 1.1245-5 Adjustments to basis.
  - 1.1245-6 Relation of section 1245 to other sections.
  - 1.1247-1 Election by foreign investment companies to distribute income currently.
  - 1.1247-2 Computation and distribution of taxable income.
  - 1.1247-3 Treatment of capital gains.
  - 1.1247-4 Election by foreign investment company with respect to foreign tax credit.
  - 1.1247-5 Information and recordkeeping requirements.
  - 1.1248-1 Treatment of gain from certain sales or exchanges of stock in certain foreign corporations.
  - 1.1248-2 Earnings and profits attributable to a block of stock in simple cases.
  - 1.1248-3 Earnings and profits attributable to stock in complex cases.

**Pt. 1**

**26 CFR Ch. I (4-1-04 Edition)**

- 1.1248-4 Limitation on tax applicable to individuals.
  - 1.1248-5 Stock ownership requirements for less developed country corporations.
  - 1.1248-6 Sale or exchange of stock in certain domestic corporations.
  - 1.1248-7 Taxpayer to establish earnings and profits and foreign taxes.
  - 1.1249-1 Gain from certain sales or exchanges of patents, etc., to foreign corporations.
  - 1.1250-1 Gain from dispositions of certain depreciable realty.
  - 1.1250-2 Additional depreciation defined.
  - 1.1250-3 Exceptions and limitations.
  - 1.1250-4 Holding period.
  - 1.1250-5 Property with two or more elements.
  - 1.1251-1 General rule for treatment of gain from disposition of property used in farming where farm losses offset nonfarm income.
  - 1.1251-2 Excess deductions account.
  - 1.1251-3 Definitions relating to section 1251.
  - 1.1251-4 Exceptions and limitations.
  - 1.1252-1 General rule for treatment of gain from disposition of farm land.
  - 1.1252-2 Special rules.
  - 1.1254-0 Table of contents for section 1254 recapture rules.
  - 1.1254-1 Treatment of gain from disposition of natural resource recapture property.
  - 1.1254-2 Exceptions and limitations.
  - 1.1254-3 Section 1254 costs immediately after certain acquisitions.
  - 1.1254-4 Special rules for S corporations and their shareholders.
  - 1.1254-5 Special rules for partnerships and their partners.
  - 1.1254-6 Effective date of regulations.
  - 1.1256(e)-1 Identification of hedging transactions.
  - 1.1258-1 Netting rule for certain conversion transactions.
  - 1.1271-0 Original issue discount; effective date; table of contents.
  - 1.1271-1 Special rules applicable to amounts received on retirement, sale, or exchange of debt instruments.
  - 1.1272-1 Current inclusion of OID in income.
  - 1.1272-2 Treatment of debt instruments purchased at a premium.
  - 1.1272-3 Election by a holder to treat all interest on a debt instrument as OID.
  - 1.1273-1 Definition of OID.
  - 1.1273-2 Determination of issue price and issue date.
  - 1.1274-1 Debt instruments to which section 1274 applies.
  - 1.1274-2 Issue price of debt instruments to which section 1274 applies.
  - 1.1274-3 Potentially abusive situations defined.
  - 1.1274-4 Test rate.
  - 1.1274-5 Assumptions.
  - 1.1274A-1 Special rules for certain transactions where stated principal amount does not exceed \$2,800,000.
  - 1.1275-1 Definitions.
  - 1.1275-2 Special rules relating to debt instruments.
  - 1.1275-3 OID information reporting requirements.
  - 1.1275-4 Contingent payment debt instruments.
  - 1.1275-5 Variable rate debt instruments.
  - 1.1275-6 Integration of qualifying debt instruments.
  - 1.1275-7 Inflation-indexed debt instruments.
  - 1.1286-1 Tax treatment of certain stripped bonds and stripped coupons.
  - 1.1286-2 Stripped inflation-indexed debt instruments.
  - 1.1287-1 Denial of capital gains treatment for gains on registration-required obligations not in registered form.
  - 1.1291-0 Treatment of shareholders of certain passive foreign investment companies; table of contents.
  - 1.1291-1 Taxation of U.S. persons that are shareholders of PFICs that are not pedigreed QEFs.
  - 1.1291-9 Deemed dividend election.
  - 1.1291-10 Deemed sale election.
  - 1.1293-0 Table of contents.
  - 1.1293-1 Current taxation of income from qualified electing funds.
  - 1.1294-0 Table of contents.
  - 1.1294-1T Election to extend the time for payment of tax on undistributed earnings of a qualified electing fund (temporary).
  - 1.1295-0 Table of contents.
  - 1.1295-1 Qualified electing funds.
  - 1.1295-3 Retroactive elections.
  - 1.1296(e)-1 Definition of marketable stock.
  - 1.1297-0 Table of contents.
  - 1.1297-3T Deemed sale election by a United States person that is a shareholder of a passive foreign investment company (temporary).
- INCOME AVERAGING
- 1.1301-1 Averaging of farm income.
- READJUSTMENT OF TAX BETWEEN YEARS AND SPECIAL LIMITATIONS
- MITIGATION OF EFFECT OF LIMITATIONS AND OTHER PROVISIONS
- 1.1311(a)-1 Introduction.
  - 1.1311(a)-2 Purpose and scope of section 1311.
  - 1.1311(b)-1 Maintenance of an inconsistent position.
  - 1.1311(b)-2 Correction not barred at time of erroneous action.
  - 1.1311(b)-3 Existence of relationship in case of adjustment by way of deficiency assessment.
  - 1.1312-1 Double inclusion of an item of gross income.

## Internal Revenue Service, Treasury

Pt. 1

- 1.1312-2 Double allowance of a deduction or credit.
- 1.1312-3 Double exclusion of an item of gross income.
- 1.1312-4 Double disallowance of a deduction or credit.
- 1.1312-5 Correlative deductions and inclusions for trusts or estates and legatees, beneficiaries, or heirs.
- 1.1312-6 Correlative deductions and credits for certain related corporations.
- 1.1312-7 Basis of property after erroneous treatment of a prior transaction.
- 1.1312-8 Law applicable in determination of error.
- 1.1313(a)-1 Decision by Tax Court or other court as a determination.
- 1.1313(a)-2 Closing agreement as a determination.
- 1.1313(a)-3 Final disposition of claim for refund as a determination.
- 1.1313(a)-4 Agreement pursuant to section 1313(a)(4) as a determination.
- 1.1313(c)-1 Related taxpayer.
- 1.1314(a)-1 Ascertainment of amount of adjustment in year of error.
- 1.1314(a)-2 Adjustment to other barred taxable years.
- 1.1314(b)-1 Method of adjustment.
- 1.1314(c)-1 Adjustment unaffected by other items.

### INVOLUNTARY LIQUIDATION AND REPLACEMENT OF LIFO INVENTORIES

- 1.1321-1 Involuntary liquidation of lifo inventories.
- 1.1321-2 Liquidation and replacement of lifo inventories by acquiring corporations.

### WAR LOSS RECOVERIES

- 1.1331-1 Recoveries in respect of war losses.
- 1.1332-1 Inclusion in gross income of war loss recoveries.
- 1.1333-1 Tax adjustment measured by prior benefits.
- 1.1334-1 Restoration of value of investments.
- 1.1335-1 Elective method; time and manner of making election and effect thereof.
- 1.1336-1 Basis of recovered property.
- 1.1337-1 Determination of tax benefits from allowable deductions.

### CLAIM OF RIGHT

- 1.1341-1 Restoration of amounts received or accrued under claim of right.
- 1.1342-1 Computation of tax where taxpayer recovers substantial amount held by another under claim of right; effective date.

### OTHER LIMITATIONS

- 1.1346-1 Recovery of unconstitutional taxes.
- 1.1347-1 Tax on certain amounts received from the United States.

- 1.1348-1 Fifty-percent maximum tax on earned income.
- 1.1348-2 Computation of the fifty-percent maximum tax on earned income.
- 1.1348-3 Definitions.

### SMALL BUSINESS CORPORATIONS AND THEIR SHAREHOLDERS

- 1.1361-0 Table of contents.
- 1.1361-1 S corporation defined.
- 1.1361-2 Definitions relating to S corporation subsidiaries.
- 1.1361-3 QSub election.
- 1.1361-4 Effect of QSub election.
- 1.1361-5 Termination of QSub election.
- 1.1361-6 Effective date.
- 1.1362-0 Table of contents.
- 1.1362-1 Election to be an S corporation.
- 1.1362-2 Termination of election.
- 1.1362-3 Treatment of S termination year.
- 1.1362-4 Inadvertent terminations.
- 1.1362-5 Election after termination.
- 1.1362-6 Elections and consents.
- 1.1362-7 Effective dates.
- 1.1362-8 Dividends received from affiliated subsidiaries.
- 1.1363-1 Effect of election on corporation.
- 1.1363-2 Recapture of LIFO benefits.
- 1.1366-0 Table of contents.
- 1.1366-1 Shareholder's share of items of an S corporation.
- 1.1366-2 Limitations on deduction of pass-through items of an S corporation to its shareholders.
- 1.1366-3 Treatment of family groups.
- 1.1366-4 Special rules limiting the pass-through of certain items of an S corporation to its shareholders.
- 1.1366-5 Effective date.
- 1.1367-0 Table of contents.
- 1.1367-1 Adjustments to basis of shareholder's stock in an S corporation.
- 1.1367-2 Adjustments to basis of indebtedness to shareholder.
- 1.1367-3 Effective date and transition rule.
- 1.1368-0 Table of contents.
- 1.1368-1 Distributions by S corporations.
- 1.1368-1T Distributions by S corporations (temporary).
- 1.1368-2 Accumulated adjustments account (AAA).
- 1.1368-3 Examples.
- 1.1368-4 Effective date and transition rule.
- 1.1374-0 Table of contents.
- 1.1374-1 General rules and definitions.
- 1.1374-2 Net recognized built-in gain.
- 1.1374-3 Net unrealized built-in gain.
- 1.1374-4 Recognized built-in gain or loss.
- 1.1374-5 Loss carryforwards.
- 1.1374-6 Credits and credit carryforwards.
- 1.1374-7 Inventory.
- 1.1374-8 Section 1374(d)(8) transactions.
- 1.1374-9 Anti-stuffing rule.
- 1.1374-10 Effective date and additional rules.

**Pt. 1**

**26 CFR Ch. I (4-1-04 Edition)**

- 1.1375-1 Tax imposed when passive investment income of corporation having subchapter C earnings and profits exceed 25 percent of gross receipts.
- 1.1377-0 Table of contents.
- 1.1377-1 Pro rata share.
- 1.1377-1T Pro rata share (temporary).
- 1.1377-2 Post-termination transition period.
- 1.1377-3 Effective dates.
- 1.1378-1 Taxable year of S corporation.

**SECTION 1374 BEFORE THE TAX REFORM ACT OF 1986**

- 1.1374-1A Tax imposed on certain capital gains.

**COOPERATIVES AND THEIR PATRONS**

**TAX TREATMENT OF COOPERATIVES**

- 1.1381-1 Organizations to which part applies.
- 1.1381-2 Tax on certain farmers' cooperatives.
- 1.1382-1 Taxable income of cooperatives; gross income.
- 1.1382-2 Taxable income of cooperatives; treatment of patronage dividends.
- 1.1382-3 Taxable income of cooperatives; special deductions for exempt farmers' cooperatives.
- 1.1382-4 Taxable income of cooperatives; payment period for each taxable year.
- 1.1382-5 Taxable income of cooperatives; products marketed under pooling arrangements.
- 1.1382-6 Taxable income of cooperatives; treatment of earnings received after patronage occurred.
- 1.1382-7 Special rules applicable to cooperative associations exempt from tax before January 1, 1952.
- 1.1383-1 Computation of tax where cooperative redeems nonqualified written notices of allocation.

**TAX TREATMENT BY PATRONS OF PATRONAGE DIVIDENDS**

- 1.1385-1 Amounts includible in patron's gross income.

**DEFINITIONS; SPECIAL RULES**

- 1.1388-1 Definitions and special rules.
- 1.1394-0 Table of contents.
- 1.1394-1 Enterprise zone facility bonds.

**EMPOWERMENT ZONE EMPLOYMENT CREDIT**

- 1.1396-1 Qualified zone employees.
- 1.1397E-1 Qualified zone academy bonds.

**RULES RELATING TO INDIVIDUALS' TITLE 11 CASES**

- 1.1398-1 Treatment of passive activity losses and passive activity credits in individuals' title 11 cases.
- 1.1398-2 Treatment of section 465 losses in individuals' title 11 cases.

- 1.1398-3 Treatment of section 121 exclusion in individuals' title 11 cases.
- 1.1400L(b)-1T Additional first year depreciation deduction for qualified New York Liberty Zone property (temporary).

AUTHORITY: 26 U.S.C. 7805, unless otherwise noted.

Section 1.1036-1 also issued under 26 U.S.C. 351(g)(4).

Section 1.1059(e)-1 also issued under 26 U.S.C. 1059 (e)(1) and (e)(2).

Section 1.1060-1 also issued under 26 U.S.C. 1060.

Sections 1.1092(b)-1T and 1.1092(b)-2T also issued under 26 U.S.C. 1092 (b)(1).

Section 1.1092(b)-4T also issued under 26 U.S.C. 1092(b)(2).

Section 1.1092(c)-1 also issued under 26 U.S.C. 1092(c)(4)(H).

Section 1.1092(c)-2 also issued under 26 U.S.C. 1092(c)(4)(H).

Section 1.1092(c)-3 also issued under 26 U.S.C. 1092(c)(4)(H).

Section 1.1092(c)-4 also issued under 26 U.S.C. 1092(c)(4)(H).

Section 1.1092(d)-2 also issued under 26 U.S.C. 1092(d)(3)(B).

Section 1.1202-2 is also issued under 26 U.S.C. 1202(k).

Section 1.1221-2 also issued under 26 U.S.C. 1221 (b)(2)(A)(iii), (b)(2)(B), and (b)(3); 1502 and 6001.

Section 1.1244(e)-1 also issued under 26 U.S.C. 1244(e).

Section 1.1254-1 also issued under 26 U.S.C. 1254(b).

Section 1.1254-2 also issued under 26 U.S.C. 1254(b).

Section 1.1254-3 also issued under 26 U.S.C. 1254(b).

Section 1.1254-4 also issued under 26 U.S.C. 1254(b).

Section 1.1254-5 also issued under 26 U.S.C. 1254(b).

Section 1.1254-6 also issued under 26 U.S.C. 1254(b).

Section 1.1271-1 also issued under 26 U.S.C. 1275(d).

Section 1.1272-1 also issued under 26 U.S.C. 1275(d).

Section 1.1272-2 also issued under 26 U.S.C. 1275(d).

Section 1.1272-3 also issued under 26 U.S.C. 1275(d).

Section 1.1273-1 also issued under 26 U.S.C. 1275(d).

Section 1.1273-2 also issued under 26 U.S.C. 1275(d).

Section 1.1274-1 also issued under 26 U.S.C. 1275(d).

Section 1.1274-2 also issued under 26 U.S.C. 1275(d).

Section 1.1274-3 also issued under 26 U.S.C. 1275(d).

Section 1.1274-4 also issued under 26 U.S.C. 1275(d).

## Internal Revenue Service, Treasury

## § 1.1001-1

Section 1.1274-5 also issued under 26 U.S.C. 1275(d).

Section 1.1274A-1 also issued under 26 U.S.C. 1274A(e) and 26 U.S.C. 1275(d).

Section 1.1275-1 also issued under 26 U.S.C. 1275(d).

Section 1.1275-2 also issued under 26 U.S.C. 1275(d).

Section 1.1275-3 also issued under 26 U.S.C. 1275(d).

Section 1.1275-4 also issued under 26 U.S.C. 1275(d).

Section 1.1275-5 also issued under 26 U.S.C. 1275(d).

Section 1.1275-6 also issued under 26 U.S.C. 1275(d).

Section 1.1275-7 also issued under 26 U.S.C. 1275(d).

Section 1.1286-1 also issued under 26 U.S.C. 1275(D) and 1286(f).

Section 1.1286-2 also issued under 26 U.S.C. 1286(f).

Section 1.1287-1 also issued under 26 U.S.C. 165 (j)(3).

Section 1.1291-1 also issued under 26 U.S.C. 1291.

Section 1.1291-9 also issued under 26 U.S.C. 1291(d)(2).

Section 1.1291-10 also issued under 26 U.S.C. 1291(d)(2).

Section 1.1293-1 also issued under 26 U.S.C. 1293.

Section 1.1294-1T also issued under 26 U.S.C. 1294.

Section 1.1295-1 also issued under 26 U.S.C. 1295.

Section 1.1295-3 also issued under 26 U.S.C. 1295.

Section 1.1296(e)-1 also issued under 26 U.S.C. 1296(e).

Section 1.1297-3T also issued under 26 U.S.C. 1297(b)(1).

Section 1.1301-1 also issued under 26 U.S.C. 1301(c).

Section 1.1361-1(j) (6), (10) and (11) also issued under 26 U.S.C. 1361(d)(2)(B)(iii).

Section 1.1361-1(l) also issued under 26 U.S.C. 1361(c)(5)(C).

Sections 1.1362-1, 1.1362-2, 1.1362-3, 1.1362-4, 1.1362-5, 1.1362-6, 1.1362-7, and 1.1363-1 also issued under 26 U.S.C. 1377.

Section 1.1368-1(f) and (g) also issued under 26 U.S.C. 1377(c).

Section 1.1368-2(b) also issued under 26 U.S.C. 1368(c).

Section 1.1374-1 also issued under 26 U.S.C. 1374(e) and 337(d).

Section 1.1374-2 also issued under 26 U.S.C. 1374(e) and 337(d).

Section 1.1374-3 also issued under 26 U.S.C. 1374(e) and 337(d).

Section 1.1374-4 also issued under 26 U.S.C. 1374(e) and 337(d).

Section 1.1374-5 also issued under 26 U.S.C. 1374(e) and 337(d).

Section 1.1374-6 also issued under 26 U.S.C. 1374(e) and 337(d).

Section 1.1374-7 also issued under 26 U.S.C. 1374(e) and 337(d).

Section 1.1374-8 also issued under 26 U.S.C. 1374(e) and 337(d).

Section 1.1374-9 also issued under 26 U.S.C. 1374(e) and 337(d).

Section 1.1374-10 also issued under 26 U.S.C. 1374(e) and 337(d).

Section 1.1377-1 also issued under 26 U.S.C. 1377(a)(2) and (c).

Section 1.1394-1 also issued under 26 U.S.C. 1397D.

Section 1.1396-1 also issued under 26 U.S.C. 1397D.

Section 1.1397E-1 also issued under 26 U.S.C. 1397E(b) and (d).

SOURCE: T.D. 6500, 25 FR 11910, Nov. 26, 1960; 25 FR 14021, Dec. 31, 1960, unless otherwise noted.

### GAIN OR LOSS ON DISPOSITION OF PROPERTY

#### DETERMINATION OF AMOUNT OF AND RECOGNITION OF GAIN OR LOSS

#### § 1.1001-1 Computation of gain or loss.

(a) *General rule.* Except as otherwise provided in subtitle A of the Code, the gain or loss realized from the conversion of property into cash, or from the exchange of property for other property differing materially either in kind or in extent, is treated as income or as loss sustained. The amount realized from a sale or other disposition of property is the sum of any money received plus the fair market value of any property (other than money) received. The fair market value of property is a question of fact, but only in rare and extraordinary cases will property be considered to have no fair market value. The general method of computing such gain or loss is prescribed by section 1001 (a) through (d) which contemplates that from the amount realized upon the sale or exchange there shall be withdrawn a sum sufficient to restore the adjusted basis prescribed by section 1011 and the regulations thereunder (i.e., the cost or other basis adjusted for receipts, expenditures, losses, allowances, and other items chargeable against and applicable to such cost or other basis). The amount which remains after the adjusted basis has been restored to the taxpayer constitutes the realized gain. If the amount realized upon the sale or exchange is insufficient to restore to the

taxpayer the adjusted basis of the property, a loss is sustained to the extent of the difference between such adjusted basis and the amount realized. The basis may be different depending upon whether gain or loss is being computed. For example, see section 1015(a) and the regulations thereunder. Section 1001(e) and paragraph (f) of this section prescribe the method of computing gain or loss upon the sale or other disposition of a term interest in property the adjusted basis (or a portion) of which is determined pursuant, or by reference, to section 1014 (relating to the basis of property acquired from a decedent) or section 1015 (relating to the basis of property acquired by gift or by a transfer in trust).

(b) *Real estate taxes as amounts received.* (1) Section 1001(b) and section 1012 state rules applicable in making an adjustment upon a sale of real property with respect to the real property taxes apportioned between seller and purchaser under section 164(d). Thus, if the seller pays (or agrees to pay) real property taxes attributable to the real property tax year in which the sale occurs, he shall not take into account, in determining the amount realized from the sale under section 1001(b), any amount received as reimbursement for taxes which are treated under section 164(d) as imposed upon the purchaser. Similarly, in computing the cost of the property under section 1012, the purchaser shall not take into account any amount paid to the seller as reimbursement for real property taxes which are treated under section 164(d) as imposed upon the purchaser. These rules apply whether or not the contract of sale calls for the purchaser to reimburse the seller for such real property taxes paid or to be paid by the seller.

(2) On the other hand, if the purchaser pays (or is to pay) an amount representing real property taxes which are treated under section 164(d) as imposed upon the seller, that amount shall be taken into account both in determining the amount realized from the sale under section 1001(b) and in computing the cost of the property under section 1012. It is immaterial whether or not the contract of sale specifies that the sale price has been reduced by, or is in any way intended

to reflect, the taxes allocable to the seller. See also paragraph (b) of § 1.1012-1.

(3) Subparagraph (1) of this paragraph shall not apply to a seller who, in a taxable year prior to the taxable year of sale, pays an amount representing real property taxes which are treated under section 164(d) as imposed on the purchaser, if such seller has elected to capitalize such amount in accordance with section 266 and the regulations thereunder (relating to election to capitalize certain carrying charges and taxes).

(4) The application of this paragraph may be illustrated by the following examples:

*Example 1.* Assume that the contract price on the sale of a parcel of real estate is \$50,000 and that real property taxes thereon in the amount of \$1,000 for the real property tax year in which occurred the date of sale were previously paid by the seller. Assume further that \$750 of the taxes are treated under section 164(d) as imposed upon the purchaser and that he reimburses the seller in that amount in addition to the contract price. The amount realized by the seller is \$50,000. Similarly, \$50,000 is the purchaser's cost. If, in this example, the purchaser made no payment other than the contract price of \$50,000, the amount realized by the seller would be \$49,250, since the sales price would be deemed to include \$750 paid to the seller in reimbursement for real property taxes imposed upon the purchaser. Similarly, \$49,250 would be the purchaser's cost.

*Example 2.* Assume that the purchaser in example (1), above, paid all of the real property taxes. Assume further that \$250 of the taxes are treated under section 164(d) as imposed upon the seller. The amount realized by the seller is \$50,250. Similarly, \$50,250 is the purchaser's cost, regardless of the taxable year in which the purchaser makes actual payment of the taxes.

*Example 3.* Assume that the seller described in the first part of example (1), above, paid the real property taxes of \$1,000 in the taxable year prior to the taxable year of sale and elected under section 266 to capitalize the \$1,000 of taxes. In such a case, the amount realized is \$50,750. Moreover, regardless of whether the seller elected to capitalize the real property taxes, the purchaser in that case could elect under section 266 to capitalize the \$750 of taxes treated under section 164(d) as imposed upon him, in which case his adjusted basis would be \$50,750 (cost of \$50,000 plus capitalized taxes of \$570).

(c) *Other rules.* (1) Even though property is not sold or otherwise disposed



of, gain is realized if the sum of all the amounts received which are required by section 1016 and other applicable provisions of subtitle A of the Code to be applied against the basis of the property exceeds such basis. Except as otherwise provided in section 301(c)(3)(B) with respect to distributions out of increase in value of property accrued prior to March 1, 1913, such gain is includible in gross income under section 61 as "income from whatever source derived". On the other hand, a loss is not ordinarily sustained prior to the sale or other disposition of the property, for the reason that until such sale or other disposition occurs there remains the possibility that the taxpayer may recover or recoup the adjusted basis of the property. Until some identifiable event fixes the actual sustaining of a loss and the amount thereof, it is not taken into account.

(2) The provisions of subparagraph (1) of this paragraph may be illustrated by the following example:

*Example:* A, an individual on a calendar year basis, purchased certain shares of stock subsequent to February 28, 1913, for \$10,000. On January 1, 1954, A's adjusted basis for the stock had been reduced to \$1,000 by reason of receipts and distributions described in sections 1016(a)(1) and 1016(a)(4). He received in 1954 a further distribution of \$5,000, being a distribution covered by section 1016(a)(4), other than a distribution out of increase of value of property accrued prior to March 1, 1913. This distribution applied against the adjusted basis as required by section 1016(a)(4) exceeds that basis by \$4,000. The \$4,000 excess is a gain realized by A in 1954 and is includible in gross income in his return for that calendar year. In computing gain from the stock, as in adjusting basis, no distinction is made between items of receipts or distributions described in section 1016. If A sells the stock in 1955 for \$5,000, he realizes in 1955 a gain of \$5,000, since the adjusted basis of the stock for the purpose of computing gain or loss from the sale is zero.

(d) *Installment sales.* In the case of property sold on the installment plan, special rules for the taxation of the gain are prescribed in section 453.

(e) *Transfers in part a sale and in part a gift.* (1) Where a transfer of property is in part a sale and in part a gift, the transferor has a gain to the extent that the amount realized by him exceeds his adjusted basis in the property. However, no loss is sustained on such a

transfer if the amount realized is less than the adjusted basis. For the determination of basis of property in the hands of the transferee, see § 1.1015-4. For the allocation of the adjusted basis of property in the case of a bargain sale to a charitable organization, see § 1.1011-2.

(2) *Examples.* The provisions of subparagraph (1) may be illustrated by the following examples:

*Example 1.* A transfers property to his son for \$60,000. Such property in the hands of A has an adjusted basis of \$30,000 (and a fair market value of \$90,000). A's gain is \$30,000, the excess of \$60,000, the amount realized, over the adjusted basis, \$30,000. He has made a gift of \$30,000, the excess of \$90,000, the fair market value, over the amount realized, \$60,000.

*Example 2.* A transfers property to his son for \$30,000. Such property in the hands of A has an adjusted basis of \$60,000 (and a fair market value of \$90,000). A has no gain or loss, and has made a gift of \$60,000, the excess of \$90,000, the fair market value, over the amount realized, \$30,000.

*Example 3.* A transfers property to his son for \$30,000. Such property in A's hands has an adjusted basis of \$30,000 (and a fair market value of \$60,000). A has no gain and has made a gift of \$30,000, the excess of \$60,000, the fair market value, over the amount realized, \$30,000.

*Example 4.* A transfers property to his son for \$30,000. Such property in A's hands has an adjusted basis of \$90,000 (and a fair market value of \$60,000). A has sustained no loss, and has made a gift of \$30,000, the excess of \$60,000, the fair market value, over the amount realized, \$30,000.

(f) *Sale or other disposition of a term interest in property—(1) General rule.* Except as otherwise provided in subparagraph (3) of this paragraph, for purposes of determining gain or loss from the sale or other disposition after October 9, 1969, of a term interest in property (as defined in subparagraph (2) of this paragraph) a taxpayer shall not take into account that portion of the adjusted basis of such interest which is determined pursuant, or by reference, to section 1014 (relating to the basis of property acquired from a decedent) or section 1015 (relating to the basis of property acquired by gift or by a transfer in trust) to the extent that such adjusted basis is a portion of the adjusted uniform basis of the entire property (as defined in § 1.1014-5). Where a term interest in property is transferred to a

corporation in connection with a transaction to which section 351 applies and the adjusted basis of the term interest (i) is determined pursuant to section 1014 or 1015 and (ii) is also a portion of the adjusted uniform basis of the entire property, a subsequent sale or other disposition of such term interest by the corporation will be subject to the provisions of section 1001(e) and this paragraph to the extent that the basis of the term interest so sold or otherwise disposed of is determined by reference to its basis in the hands of the transferor as provided by section 362(a). See subparagraph (2) of this paragraph for rules relating to the characterization of stock received by the transferor of a term interest in property in connection with a transaction to which section 351 applies. That portion of the adjusted uniform basis of the entire property which is assignable to such interest at the time of its sale or other disposition shall be determined under the rules provided in §1.1014-5. Thus, gain or loss realized from a sale or other disposition of a term interest in property shall be determined by comparing the amount of the proceeds of such sale with that part of the adjusted basis of such interest which is not a portion of the adjusted uniform basis of the entire property.

(2) *Term interest defined.* For purposes of section 1001(e) and this paragraph, a *term interest in property* means—

- (i) A life interest in property,
- (ii) An interest in property for a term of years, or
- (iii) An income interest in a trust.

Generally, subdivisions (i), (ii), and (iii) refer to an interest, present or future, in the income from property or the right to use property which will terminate or fail on the lapse of time, on the occurrence of an event or contingency, or on the failure of an event or contingency to occur. Such divisions do not refer to remainder or reversionary interests in the property itself or other interests in the property which will ripen into ownership of the entire property upon termination or failure of a preceding term interest. A *term interest in property* also includes any property received upon a sale or other disposition of a life interest in property, an interest in property for a term of

years, or an income interest in a trust by the original holder of such interest, but only to the extent that the adjusted basis of the property received is determined by reference to the adjusted basis of the term interest so transferred.

(3) *Exception.* Paragraph (1) of section 1001(e) and subparagraph (1) of this paragraph shall not apply to a sale or other disposition of a term interest in property as a part of a single transaction in which the entire interest in the property is transferred to a third person or to two or more other persons, including persons who acquire such entire interest as joint tenants, tenants by the entirety, or tenants in common. See §1.1014-5 for computation of gain or loss upon such a sale or other disposition where the property has been acquired from a decedent or by gift or transfer in trust.

(4) *Illustrations.* For examples illustrating the application of this paragraph, see paragraph (c) of §1.1014-5.

(g) *Debt instruments issued in exchange for property—*(1) *In general.* If a debt instrument is issued in exchange for property, the amount realized attributable to the debt instrument is the issue price of the debt instrument as determined under §1.1273-2 or §1.1274-2, whichever is applicable. If, however, the issue price of the debt instrument is determined under section 1273(b)(4), the amount realized attributable to the debt instrument is its stated principal amount reduced by any unstated interest (as determined under section 483).

(2) *Certain debt instruments that provide for contingent payments—*(i) *In general.* Paragraph (g)(1) of this section does not apply to a debt instrument subject to either §1.483-4 or §1.1275-4(c) (certain contingent payment debt instruments issued for nonpublicly traded property).

(ii) *Special rule to determine amount realized.* If a debt instrument subject to §1.1275-4(c) is issued in exchange for property, and the income from the exchange is not reported under the installment method of section 453, the amount realized attributable to the debt instrument is the issue price of the debt instrument as determined under §1.1274-2(g), increased by the fair

market value of the contingent payments payable on the debt instrument. If a debt instrument subject to §1.483-4 is issued in exchange for property, and the income from the exchange is not reported under the installment method of section 453, the amount realized attributable to the debt instrument is its stated principal amount, reduced by any unstated interest (as determined under section 483), and increased by the fair market value of the contingent payments payable on the debt instrument. This paragraph (g)(2)(ii), however, does not apply to a debt instrument if the fair market value of the contingent payments is not reasonably ascertainable. Only in rare and extraordinary cases will the fair market value of the contingent payments be treated as not reasonably ascertainable.

(3) *Coordination with section 453.* If a debt instrument is issued in exchange for property, and the income from the exchange is not reported under the installment method of section 453, this paragraph (g) applies rather than §15a.453-1(d)(2) to determine the taxpayer's amount realized attributable to the debt instrument.

(4) *Effective date.* This paragraph (g) applies to sales or exchanges that occur on or after August 13, 1996.

[T.D. 6500, 25 FR 11910, Nov. 26, 1960, as amended by T.D. 7142, 36 FR 18950, Sept. 24, 1971; T.D. 7207, 37 FR 20797, Oct. 5, 1972; T.D. 7213, 37 FR 21992, Oct. 18, 1972; T.D. 8517, 59 FR 4807, Feb. 2, 1994; T.D. 8674, 61 FR 30139, June 14, 1996]

#### § 1.1001-2 Discharge of liabilities.

(a) *Inclusion in amount realized*—(1) *In general.* Except as provided in paragraph (a) (2) and (3) of this section, the amount realized from a sale or other disposition of property includes the amount of liabilities from which the transferor is discharged as a result of the sale or disposition.

(2) *Discharge of indebtedness.* The amount realized on a sale or other disposition of property that secures a recourse liability does not include amounts that are (or would be if realized and recognized) income from the discharge of indebtedness under section 61(a)(12). For situations where amounts arising from the discharge of indebted-

ness are not realized and recognized, see section 108 and §1.61-12(b)(1).

(3) *Liability incurred on acquisition.* In the case of a liability incurred by reason of the acquisition of the property, this section does not apply to the extent that such liability was not taken into account in determining the transferor's basis for such property.

(4) *Special rules.* For purposes of this section—

(i) The sale or other disposition of property that secures a nonrecourse liability discharges the transferor from the liability;

(ii) The sale or other disposition of property that secures a recourse liability discharges the transferor from the liability if another person agrees to pay the liability (whether or not the transferor is in fact released from liability);

(iii) A disposition of property includes a gift of the property or a transfer of the property in satisfaction of liabilities to which it is subject;

(iv) Contributions and distributions of property between a partner and a partnership are not sales or other dispositions of property; and

(v) The liabilities from which a transferor is discharged as a result of the sale or disposition of a partnership interest include the transferor's share of the liabilities of the partnership.

(b) *Effect of fair market value of security.* The fair market value of the security at the time of sale or disposition is not relevant for purposes of determining under paragraph (a) of this section the amount of liabilities from which the taxpayer is discharged or treated as discharged. Thus, the fact that the fair market value of the property is less than the amount of the liabilities it secures does not prevent the full amount of those liabilities from being treated as money received from the sale or other disposition of the property. However, see paragraph (a)(2) of this section for a rule relating to certain income from discharge of indebtedness.

(c) *Examples.* The provisions of this section may be illustrated by the following examples. In each example assume the taxpayer uses the cash receipts and disbursements method of accounting, makes a return on the basis