Capital Gains

• Enter Capital Gain and Loss transactions onto the “Capital Gain Worksheet” (not on 8949)

• For new clients be sure to check for 2012 ST and LT Capital Loss carryovers to enter on 2013 schedule D

• “Capital Gain Worksheet” information automatically transfers to the appropriate Forms 8949 (up to 6 possible forms 8949 – one for each of the three 1099 codes short term and one for each of the three 1099 codes long term)

Enter transaction details on Cap Gn Wkt

Flows to Forms 8949

Flows to Sch D

Flows to Form 1040 Line 13

➢ TaxWise does the flowing 😊
Covered Securities

• In the column labeled “1099” in the Cap Gn Wkt, enter:
  ❖ “A” or “D” for short or long term covered securities (basis reported to IRS on 1099-B)
  ❖ “B” or “E” for short or long term for non-Covered Securities (basis not reported to IRS)
  ❖ “C” or “F” for short or long term transactions not reported on 1099-B (e.g., home sale)

• Covered Securities Include:
  ❖ Stocks (not in a dividend reinvestment plan) acquired in 2011 or later
  ❖ Stocks in a dividend reinvestment plan acquired in 2012 or later
  ❖ Mutual Funds acquired in 2012 or later
  ❖ All other investment products acquired in 2013 or later

• Form 1099-B will often explicitly state if a security is Covered or non-Covered.

Just because a 1099-B has cost basis information does not necessarily mean it is a covered security
**Capital Gains Worksheet**

Enter all transactions on this worksheet

- **1099**: Enter A, B, C, D, E or F (see legend at top)
- If adjustment to reported cost basis is required, enter explanation code in (f) and amount, if applicable, in (g)
- If “batching” entries, use code M to indicate group of transactions (not really an adjustment)
Capital Gains Worksheet

• Date Acquired
  ❖ Can be “INHERIT” which will appear “IN/HE/RIT” – gain or loss is always long-term
  ❖ Can be “VARIOUS” (VA/RI/OUS) for several different purchase dates. TWO assumes long-term; must override in S/L column if short-term.

• Date Sold
  ❖ Can be “WORTHLSS” (no “E”, “WO/RT/HLSS”) – If an asset became totally worthless during the tax year, it is treated as though it were sold on the last day of the year.
Capital Gains Worksheet

• Sales Price
  - Enter what the broker lists as sales price. If it’s the gross sales price, which includes selling commissions, add the commission to the cost basis.

• Cost Basis
  - If you’re lucky and the broker knows what the cost basis is, it will appear on the brokerage statement
  - If you’re not so lucky:
    - Refer taxpayer to the broker
    - Rely on the taxpayer’s records
    - If security, no of shares and date purchased is known, look up net asset value online (watch out for intervening splits, mergers, etc.)
    - Average cost method in scope only if computed by broker, mutual fund or taxpayer
    - Rely on the taxpayer’s good faith estimates (*not yours*)
    - If you don’t have any info, use zero as basis
Capital Gains – Basis for Inherited Property

• From decedent who died prior to or after 2010:
  ❖ Enter “INHERIT” for the date acquired
  ❖ Basis is Fair Market Value at time of death
  ❖ Gain is long term
  ❖ If spouse dies and property held jointly with deceased, then ½ of basis is the fair market value at time of death and ½ of basis is original basis just before death

• From decedent who died during 2010
  ❖ Usually basis is Fair Market Value on date of death (long term – use “INHERIT”)
  ❖ Alternate special election by estate with basis on decedent’s purchase date is in-scope only if basis and holding period provided on Form 8939 by representative or trustee of estate
Capital Gains Substitute Transaction List

Instead of listing multiple transactions - Enter summary on Cap Gain Wkt

• Broker must provide a year-end gain/loss report
  ❖ Must include same information as required on Schedule D transaction list
  ❖ Report must have cost basis for all transactions
  ❖ 1099-B is insufficient because it usually does not contain acquisition date or cost basis

• If all requirements are met – scan Broker year-end gain/loss report
  ❖ Check box at the top of Schedule D to attach pdf file of substitute list
  ❖ TWO will ask you to browse to the location of the pdf file containing the scanned report for transmittal with Form 8453

Check here if you want to attach a substitute list to Form 8453
Check here if you want to attach a PDF of the substitute list to the e-file

AARP Tax-Aide
Webster, NY – TaxHelper 2015
**Capital Gains Summary Worksheet Entries with Form 8453**

- Enter summary data for each code by broker name onto Capital Gain or Loss Transaction Worksheet
- Enter appropriate ST or LT date for Date Sold
- Enter Code “M” in Column (f) for each summary data line
- Codes in col (f) must be in alphabetical order

**Example**

<table>
<thead>
<tr>
<th></th>
<th>(a) Description of property</th>
<th>(b) Date acquired</th>
<th>(c) Date sold</th>
<th>(d) Sales price</th>
<th>(e) Cost or other basis</th>
<th>(f) Code</th>
<th>(g) Adjustments to gain or loss</th>
<th>(h) Gain or loss</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A TOTALS</td>
<td>01/01/2014</td>
<td>06/01/2014</td>
<td>5000</td>
<td>2222</td>
<td>M,W</td>
<td>123</td>
<td>2901</td>
</tr>
<tr>
<td></td>
<td>E TOTALS</td>
<td>01/23/2006</td>
<td>07/09/2014</td>
<td>2500</td>
<td>2750</td>
<td>M</td>
<td>0</td>
<td>-250</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Capital Loss Carryover

• If current year capital loss exceeds $3,000 (the maximum loss that can be claimed in a given tax year)
  ❖ All or part of the loss in excess of $3,000 may be carried over to next year
  ❖ TWO figures this automatically on “Sh D Wkt 2”

• Prior year Long and Short-term Capital Loss carryovers to current year are entered on Sch D lines 6 and 14, respectively
  ❖ Prior year carryovers automatically transferred by TWO from prior year to current year
  ❖ For new clients, obtain this information from their prior year Capital Loss Worksheet, if available
  ❖ If prior year Capital Loss Worksheet is not available, then fill out the Loss Carryover Worksheet with information from prior year 1040 and Sch D
Sale of Principal (Main) Residence

• Main Residence is defined as home you live in most of the time during the year
  ❖ Does not have to be a traditional house; for example it may be a houseboat, mobile home, cooperative apartment or condominium, but it must have cooking, sleeping and bathroom facilities
  ❖ May be a rented house or apartment
  ❖ Taxpayers with more than one home cannot choose which home to designate as their main home.

• Taxpayers must report the sale of a home when one of the following is true:
  ❖ The taxpayer does not meet the ownership test*
  ❖ The taxpayer does not meet the use test*
  ❖ During the 2 year period ending on the date of the sale, the taxpayer has excluded the gain from the sale of another home
  ❖ The taxpayer has a gain and does not qualify to exclude all of it
  ❖ The taxpayer has a gain and chooses not to exclude it
  ❖ The taxpayer received a Form 1099-S

*see next slide
Sale of Principal (Main) Residence

• An individual taxpayer may exclude up to $250,000 of the gain from taxable income; Married Filing Jointly taxpayers may exclude up to $500,000.

• To claim the exclusion on the gain from the sale of a home, the taxpayer must meet the ownership and use tests as well as 2-year look-back test
  - Ownership test – During the 5-year period ending on the date of the sale, taxpayers must have owned the home for at least two years
  - Use Test – During the 5-year period, taxpayers must have lived in the home as their main home for at least 2 years (does not have to be contiguous)
  - During the 2-year period ending on the date of the sale, taxpayer must not have excluded the gain from the sale of another home.

• Married Taxpayers can exclude up to $500,000 if they meet all of these conditions:
  - They file a joint return
  - Either spouse meets the ownership test
  - Both individuals meet the use test
  - Neither one excluded gain in the two years before the sale of the current home
  Otherwise, test to see if one spouse qualifies for $250,000 exclusion

• The exclusion does not apply to any separate part of the property that was used for rental income
Sale of Principal (Main) Residence

• Unmarried surviving spouse can claim exclusion up to $500,000 if:
  ✷ Sale occurs no later than two years after date of spouse’s death AND
  ✷ The Married Taxpayer conditions were met immediately before the death

• Surviving Spouse basis
  ✷ ½ of fair market value at date of death plus
  ✷ ½ of original basis
### Sale of Principal Residence with a Gain

**US Schedule D Capital Gain or Loss Transactions Worksheet 2014**

1099 column: Enter "A" for short-term transactions reported on Form 1099-B with the basis reported to the IRS. Enter "B" for short-term transactions reported on Form 1099-B but the basis is not reported to the IRS. Enter "C" for short-term transactions for which you cannot enter A or B. Enter "D" for long-term transactions reported on Form 1099-B with the basis reported to the IRS. Enter "E" for long-term transactions reported on Form 1099-B but the basis is not reported to the IRS. Enter "F" for long-term transactions for which you cannot enter D or E.

* Check if 28% rate gain or (loss).

<table>
<thead>
<tr>
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<th>(d) Sales price</th>
<th>(e) Cost or other basis</th>
<th>(f) Code</th>
<th>(g) Adjustments to gain or loss</th>
<th>(h) Gain or loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>MAIN HOME</td>
<td>06/11/1990</td>
<td>06/01/2014</td>
<td>215000</td>
<td>140000</td>
<td>H</td>
<td>-75000</td>
<td>0</td>
</tr>
</tbody>
</table>

- Adjustment to gain (column g) is
  - The smaller of the gain (sales price minus cost basis) OR $250,000/$500,000 (filing as single/MFJ)
  - Entered as a negative number
- Code “H” in column f indicates sale of main home with a gain
- Also enter Code “E” if Received form 1099-S and there are selling expenses not reflected on form by an adjustment to either proceeds or basis
Sale of Principal Residence with a Loss

If the amount realized is less than the adjusted basis, the difference is a loss, which cannot be deducted. However, taxpayers who received Form 1099-S for a loss on the sale of a main home must report the loss on Form 8949 and Schedule D even though it is not deductible. Reporting the transaction should prevent the taxpayer from receiving a notice from the IRS.

Adjustment to loss (column g) equals the loss entered as a positive number so as to result in a net gain of $0 in column h.

Code “L” in column f indicates a nondeductible loss.

May also need to enter Code “E” (see previous slide)