Lesson Plan

Income – Capital Gain or Loss

Time Required: 30 minutes

Introduction	Objectives	Topics
This lesson is designed to teach volunteer tax preparers how to use Form 1040, Form 8949, and Schedule D to report capital gains and/or losses on the sale of assets. This lesson includes topics on the sale of stock, mutual funds, and the sale of a personal residence.	Determine the adjusted basis of a stock or other investment property. Determine if an asset's holding period is long-term or short-term. Calculate the taxable gain or deductible loss from the sale of stock. Determine if a home is the taxpayer's main home. Determine if a taxpayer meets the ownership and use tests. Determine when the 5-year ownership/use test period is suspended.	 Reporting capital gain or loss • Basis of Stock • Holding period • Proceeds from the sale • Form 8949 and Schedule D • Capital loss carryovers Sale of main home • Main home • Ownership and use tests • Gain on sale of main home • Reporting gain from sale of home • 5-year test period suspension

Key Terms

Adjusted Basis: The taxpayer's basis in a home increased or decreased by certain amounts. Increases include additions or improvements to the home such as installing a recreation room or putting on a new roof. In order to be considered an increase, the improvement must have a useful life of more than one year. Repairs that maintain the home in good condition are not considered improvements and should not be added to the basis of the property.

Amount Realized: The selling price minus selling expenses: commissions, advertising fees, legal fees, and loan charges paid by the seller, such as points).

Basis: The basis in a property is determined by how the taxpayer obtained the property. If a taxpayer bought or built a home, the basis is what it cost the taxpayer to buy or build that home. If the taxpayer inherited the property, the basis is its fair market value on the date of the decedent's death, or on the later alternate valuation date chosen by the representative for the estate. There are special rules for determining the basis of property received from decedents who died in 2010.

Capital Gain Distributions: Capital gains passed to investors typically by mutual funds (regulated investment companies) and real estate investment trusts (REITs).

Capital Loss Carryover: A taxpayer cannot take net losses of more than $3,000 ($1,500 for married taxpayers filing separately) in figuring taxable income for any single tax year. The allowable loss is referred to as the deduction limit. Unused losses can be carried over to later years until they are completely used up. The carryover losses are combined with the gains and losses that actually occur in the next year.

Dividends: A corporation's distributions to its shareholders from its earnings and profits.

DRIP Accounts: DRIP accounts leave cash dividends with the company for the purchase of additional shares. Even though these shares are from the same company, they retain their own individual basis separate from the original purchase. Each new purchased share could have a different basis.

Excludable Income: Income that is not included in the taxpayer's gross income and therefore exempt from federal income tax. Certain income may be exempt from tax but must be reported on the tax return.

Five-year Test Period Suspension: Taxpayers can choose to have the five-year test period for ownership and use suspended during any period the homeowner (either spouse if married) served on qualified official extended duty as a member of the uniformed services or Foreign Service of the United States, as an employee of the intelligence community, or as an employee or volunteer of the Peace Corps. This means that the taxpayer may be able to meet the two-year use test even if the taxpayer and/or spouse did not actually live in the home during the normal five-year period required of other taxpayers.

Holding Period: Form 8949 requires entries for the stock purchase and sale dates. By entering both dates, the software automatically determines the holding period; either short-term or long-term.

Main Home: A taxpayer's "main" home is where they live most of the time. It 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.

Mutual Fund: A mutual fund is a regulated investment company generally created by "pooling" funds of investors providing the advantage of a diversity of investments and professional management.

Qualified Principal Residence Indebtedness: Any debt incurred in acquiring, constructing, or substantially improving a principal residence and which is secured by the principal residence. Qualified principal residence indebtedness also includes any debt secured by the principal residence resulting from the refinancing of debt incurred to acquire, construct, or substantially improve a principal residence but only to the extent the amount of the debt does not exceed the amount of the refinanced debt.

Sale of Main Home: Only a gain from the sale of a taxpayer's main home may be excluded from the taxpayer's income; a gain from a sale of a home that is not the taxpayer's main home will generally have to be reported as income.

Selling Price: The total amount the taxpayer (seller) received for his or her main home. It includes money, all notes, mortgages, or other debts taken over by the buyer as part of the sale, and the fair market value of any other property or services that the seller received.

Stock Dividends: Stock dividends merely increase the taxpayer's number of shares in the company and generally are not taxable.

Stock Split: A stock split is a method used by corporations to lower the market price of stock. A two-for-one stock split will decrease the basis per share by half. The original basis of $200 for 100 shares becomes $200 for 200 shares.

Wash Sale: A wash sale occurs when a taxpayer sells or otherwise disposes of stock or securities (including a contract or option to acquire or sell stock or securities) at a loss and, within 30 days before or after the sale or disposition, the taxpayer buys, acquires, or enters into a contract or option to acquire substantially identical stock or securities.

Teacher Tips

Guidelines for Lesson

Guideline	Instructor Notes	Presentation Aids
Lesson background info	**Review** the online demo of TaxSlayer on reporting capital gains and losses.	**TaxSlayer® Demo:** From the Practice Lab, select : • TaxSlayer IRS training • Click the appropriate demo
Provide details and engage the students	**Discuss** all tips and cautions in detail. **Ask** students to read and/or role-play examples and sample interviews.	**Internet:** Link & Learn Taxes (L&LT) Income – Capital Gain or Loss

Topic-specific Tips

Topic Name	Instructor Notes	Presentation Aids
Introduction	**Review** lesson objectives. **Review** list of references. **State** the presentation time. **Review** the Key Terms in the lesson. **Point out** that taxpayers often receive Form 1099-B when they sell stocks. Taxpayers must report all sales of capital assets on Form(s) 8949 and Schedule D, even if a Form 1099-B is not received.	**Visuals:** Form 8949, pages 1 and 2 Schedule D Forms 1099-B, 1099-DIV, 1099-S Form 1040 Form 13614-C, Page 2 Pub 4012, Tab D, Income: Schedule D Capital Gains **Internet:** Tax Topics: Capital Gains and Losses

Reporting capital gain or loss	**Prompt** students to share what they know about reporting capital gains and losses using questions from the topic. **Direct** students to Pub 4012, Entering Capital Gains and Losses. **Review** flowchart in Pub 4012, Tab D, Income. **Ask:** • What is cost basis? • What is the holding period? (When did you buy it and when did you sell it?) • What is sales price?	**Visuals:** Form 8949, page 1 (short-term transactions), page 2 (long-term transactions) Schedule D Form 1099-B Pub 4012, Tab D, Income: • Entering Capital Gains and Losses • Schedule D – Capital Gain or Loss
Basis of Stock	**Review** L&LT topic Basis of Stock. **Ask** students to define basis and adjusted basis. **Emphasize** that Form 1099-B may not include how much taxpayers paid for the stock; if the Form 1099-B does not provide the basis, taxpayers must provide this information. **Remind** volunteers they may provide assistance if taxpayers know the basis of property that was inherited or received as a gift. Otherwise, refer them to a professional tax preparer. **Caution** students that if a taxpayer acquired property from a decedent who died in 2010, special rules may apply.	**Visual:** Form 1099-B Pub 17, Basis of Property chapter FAQs, Property (Basis, Sale of Home, etc.)

Holding period	**Review** L&LT topic Holding Period. **Ask:** What are the short-term and long-term time periods? **Answer:** 1 year or less is short-term and more than 1 year is long-term. **Ask:** Why is it important to determine long vs short-term? **Answer:** Short-term gains are taxed at regular income tax rates; long-term are taxed at a lower rate. **Ask:** When does the holding period begin? **Answer:** The day after the shares were purchased. **Review** determination of gain or loss on the disposition of mutual fund shares. **Review** with students holding periods for sales of stock in "blocks." Blocks of Stock is covered in the section of the lesson Holding Period, Long-term or Short-term.	**Visuals:** Forms 1099-B, 1099-DIV, 1099-S Schedule D Pub 17, Sale of Property chapter Pub 550

Proceeds from the sale	**Review** L&LT topic 1099-B Proceeds from the Sale. Brokers must report on Form 1099-B: • Cost or other basis, unless the securities sold were noncovered securities • Whether the gain or loss is short-term or long-term, unless the securities sold were noncovered securities. **Review** Form 1099-B for key boxes: • Box 1b: Date acquired • Box 1e: Cost or other basis • Box 2: Type of gain or loss • Box 5: Check if a noncovered security • Box 6: Gross or net proceeds reported to IRS **Direct** students to Pub 4012, Tab D, Income, Schedule D – Capital Gain or Loss. **Remind** that TaxSlayer Schedule D Capital Gains screen will determine short or long term gain, calculate gain or loss, calculate tax liability, and capital loss carryovers. **Remind** students to review the taxpayer's Form 1099-B to determine if the sales price is net of commissions and fees. If the net is not shown, then commissions and fees are added to the basis in the stock before entering the amount on the Capital Gain or Loss Transactions screen. **Verify** students understand sample consolidated statement in L&LT.	**Visuals:** Form 1099-B Pub 4012, Tab D, Income: • Schedule D – Capital Gain or Loss **Internet:** FAQs, Mutual Funds (Costs, Distributions, etc.) FAQs: Stocks (Options, Splits, Traders) **TaxSlayer Demo:** Basic Information section, link to Schedule D

Form 8949 and Schedule D	**Review** L&LT topic Form 8949 and Schedule D. **Point out** that capital gains and losses are detailed on various Forms 8949 and carried over to Schedule D. Form 8949 Page 1 is for short-term capital gains, Form 8949 Page 2 is for long-term capital gains. **Review** the steps to enter all transactions in the Schedule D Capital Gains screens, which will automatically carry to Form 8949 and Schedule D. **Explain** the adjustments to basis code that will appear on Form 8949. **Remind** students that the subtotals from each Form 8949 are carried over to Schedule D where gain or loss is calculated in the aggregate. **Review** Form 1040, Schedule D. **Point out** that if a taxpayer has both Form 1099-DIV and Form 1099-B, then capital gain distributions are added to Schedule D, Part II.	**Visuals:** Form 8949, pages 1 and 2 Form 8949 Instructions Schedule D Schedule D Instructions Pub 4012, Tab D, Income: • Capital Gains or Loss • Adjustments to Basis • Schedule D **TaxSlayer Demo:** Schedule D Capital Gains

Capital loss carryovers	**Review** L&LT topic Capital Loss Carryovers. **Ask:** When calculating a carryover of capital loss, what is the most a taxpayer can take as a net loss for a single tax year? **Answer:** $3,000 ($1,500 for married taxpayers filing separately). **Review** the capital loss carryover worksheet from Schedule D instructions. **Optional review:** "Ten Important Facts" article from IRS.gov.	**Visuals:** Pub 4012, Tab D, Income: Schedule D – Capital Gain or Loss Schedule D Instructions, Capital Loss and Carryover Worksheet Pub 17, Chapter 16, Reporting Gains and Losses **Internet:** Ten Important Facts About Capital Gains and Losses (Historical Content) **TaxSlayer Demo:** Show Capital Gains Transaction screen
Sale of main home	**Review** L&LT topic Sale of Main Home. **Remind** students to ask taxpayers if they sold any real estate, such as their principal residence or "main home" during the tax year. **Ask:** What is a main home? What must be true in order for a taxpayer to exclude gain from the sale of a home? **Emphasize** that volunteers need to confirm the home is the taxpayer's main home and meets the ownership and use tests. **Ask:** What is the maximum amount a taxpayer may exclude for the sale of their main home? **Answer:** $250,000 ($500,000 for Married Filing Jointly).	**Visuals:** Form 13614-C, Page 2 **Internet:** FAQs, Capital Gains, Losses/Sale of Home
Ownership and use tests	**Review** L&LT topic Ownership and Use Tests. **Ask:** How long must the taxpayer own and live in the home to meet the ownership and use tests? **Answer:** Own and live in the home for at least two years. **Remind** students that the ownership and use tests are applied differently for married homeowners.	**Visuals:** Form 8949, Part II **Internet:** Tax Topic: Sale of Your Home

Gain on sale of home	**Review** L&LT topic Gain on Sale of Home. **Remind** students that figuring the gain or loss on the sale of a home is based on: • Selling price • Amount realized • Basis • Adjusted basis **Display** worksheet from Pub 523 Taxable Gain or Loss on Sale of Home. **Caution** that nonqualified use and what effect this has on whether the gain from the sale or exchange of the home is excludable from income is out of scope. **Caution** students that a loss on the sale of a personal residence is not deductible. **Caution** students that if property inherited in 2010 was sold, taxpayers should be referred to a professional tax preparer. However, if taxpayers know the basis, volunteers may prepare the return.	**Visuals:** Form 1099-S Form 8949 Schedule D Pub 523, Worksheet 1, Adjusted Basis of Home Sold – Illustrated Example 1 **Internet**: Sale of Residence - Real Estate Tax Tips FAQs, Capital Gains, Losses/Sale of Home
Reporting gain from the sale of home	**Review** L&LT topic Reporting Gain from Sale of Home. **Ask:** Under what circumstances may a taxpayer receive Form 1099-S? **Demonstrate** how to report a gain and a loss; refer to L&LT. **Optional activity:** Ask students to role-play the sample interview in this topic instead of playing audio.	**Visuals:** Form 1099-S Form 8949 Schedule D
5-Year test period suspension	**Review** L&LT topic 5-Year Test Period Suspension.	**Visuals:** Pub 523
Skills Workout	**Review** the lesson Skills Workout with the class.	**Visuals:** L&LT Capital Gain or Loss, Certification Warm Up icon to review the Exercises

References	
Form 1040	Form 1040
Form 1040 Instructions	Form 1040 Instructions
Form 13614-C	Form 13614-C, Intake/Interview & Quality Review Sheet, Page 2, Part III
Form 8949	Form 8949, Sales and Other Dispositions of Capital Assets
Form 8949 Instructions	Form 8949 instructions
Schedule D (Form 1040)	Schedule D, Capital Gains and Losses
Schedule D Instructions	Schedule D Instructions
Form 1099-B	Form 1099-B, Proceeds From Broker and Barter Exchange Transactions
Form 1099-B Instructions	Form 1099-B Instructions
Form 1099-DIV	Form 1099-DIV, Dividends and Distributions; box 2a shows capital gains
Form 1099-S	Form 1099-S, Proceeds from Real Estate Transactions
Capital Loss Carryover Worksheet	From Schedule D Instructions
Pub 17	Pub 17, Part Two, chapters on Basis of Property and Sale of Property
Pub 523	Pub 523, Selling Your Home
Pub 4012	Pub 4012, Volunteer Resource Guide, Tab D, Income: Capital Gain or Loss Adjustments to basis
Optional	
Pub 544	Pub 544, Sales and other Dispositions of Assets
Pub 550	Pub 550, Investment Income and Expenses
Pub 551	Pub 551, Basis of Assets

Recommended Classroom Activities



Skills Workout: Link & Learn Taxes Income – Capital Gain or Loss

Click Skills Workout to access Link & Learn Taxes Lesson Capital Gain or Loss.

Certification Warm Up – Summary and Exercises

Click Certification Warm Up to access the Exercises in Link & Learn Taxes Capital Gain or Loss.

Media: Video & Audio for Lesson

There is no media associated with this lesson.

TaxSlayer Tips and Resources for Lesson

TaxSlayer Training Video	Advanced Tax Topics, Part 1
Practice Lab Tutorial	From the Practice Lab: 1. Enter the universal password (if you do not have the password, you can request it from your site coordinator or SPEC relationship manager). 2. Sign in to Practice Lab or create an account. 3. Select the appropriate tutorial.

Job Aids

ITA and FAQs for Lesson

FAQs	Property (Basis, Sale of Home, etc.) https://www.irs.gov/faqs/capital-gains-losses-and-sale-of-home/property-basis-sale-of-home-etc Capital Gains, Losses/Sale of Home https://www.irs.gov/faqs/capital-gains-losses-and-sale-of-home/property-basis-sale-of-home-etc Mutual Funds (Costs, Distributions, etc.) https://www.irs.gov/faqs/capital-gains-losses-and-sale-of-home/mutual-funds-costs-distributions-etc Stocks (Options, Splits, Traders) https://www.irs.gov/faqs/capital-gains-losses-and-sale-of-home/stocks-options-splits-traders
Tax Trail	Capital Gains and Losses https://www.irs.gov/taxtopics/tc409.html Ten Important Facts About Capital Gains and Losses (Historical Content) https://www.irs.gov/newsroom/capital-gains-and-losses-10-helpful-facts-to-know
Tax Tips	Sale of Residence – Real Estate Tax Tips https://www.irs.gov/businesses/small-businesses-self-employed/sale-of-residence-real-estate-tax-tips

Practice Lab

Practice Lab	https://vita.taxslayerpro.com/IRSTraining