

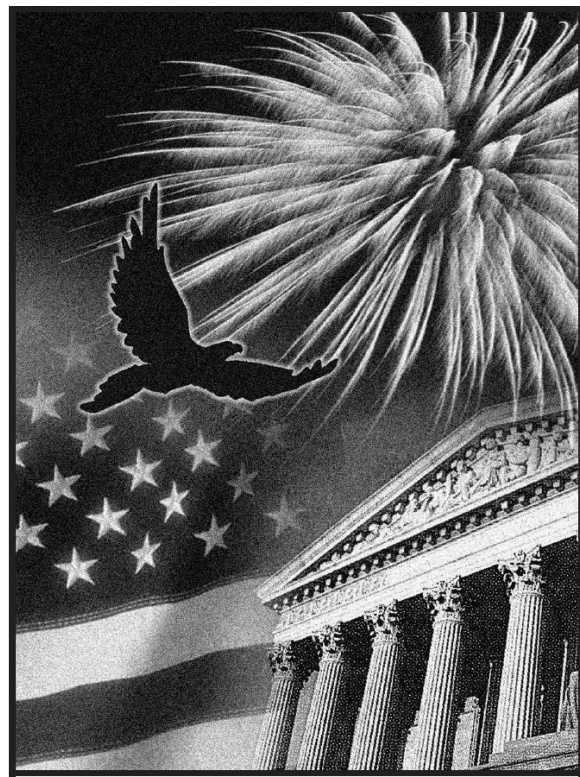
# Publication 550

## Investment Income and Expenses

(Including Capital Gains and Losses)

For use in preparing **2023** Returns

Volume 8 of 8



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**Holding period of replacement stock.** Your holding period for the replacement stock includes your holding period for the stock sold, except for the purpose of applying the 6-month holding period requirement for choosing to roll over the gain on its sale.

**Pass-through entity.** A pass-through entity (a partnership, S corporation, or mutual fund or other regulated investment company) may also make the choice to postpone gain. The benefit of the postponed gain applies to your share of the entity's postponed gain if you held an interest in the entity for the entire period the entity held the stock.

If a pass-through entity sold qualified small business stock held for more than 6 months and you held an interest in the entity for the entire period the entity held the stock, you may also choose to postpone gain if you, rather than the pass-through entity, buy the replacement stock within the 60-day period.

**How to report gain.** Report the entire gain realized from the sale in Part I or Part II of Form 8949. To make the election to postpone gain, report the gain as you would if you were not making the election. Enter “R” in column (f). Enter the amount of the postponed gain as a negative number in column (g). Put it in parentheses to show it is negative. Complete all remaining columns.



*Report these transactions on Form 8949 with the correct box checked. See Form 8949 and the Instructions for Form 8949.*

You must make the choice to postpone gain no later than the due date (including extensions) for filing your tax return for the year in which you sold the stock. If your original return was filed on time, you may make the choice on an amended return filed no later than 6 months after the due date of your return (excluding extensions). Enter “Filed pursuant to section 301.9100-2” at the

top of the amended return and file it at the same address you used for your original return.

## **Section 1202 Exclusion**

You can generally exclude from your income up to 50% of your gain from the sale or trade of qualified small business stock held by you for more than 5 years. The exclusion can be up to 75% for stock acquired after February 17, 2009, and no later than September 27, 2010, and up to 100% for stock acquired after September 27, 2010. The exclusion can be up to 60% for certain empowerment zone business stock for gain attributable to periods on or before December 31, 2018. The 60% exclusion doesn't apply to gain attributable to periods after December 31, 2018. See *Empowerment zone business stock*, later. The eligible gain minus your section 1202 exclusion is a 28% rate gain. See *Capital Gain Tax Rates*, later.

**SSBIC stock.** If the stock is SSBIC stock you bought as replacement property for publicly traded securities you sold at a gain before 2018, you must reduce the basis of the stock by the amount of any postponed gain on that earlier sale. But do not reduce your basis by that amount when figuring your section 1202 exclusion.

**Limit on eligible gain.** The amount of your gain from the stock of any one issuer that is eligible for the exclusion in 2022 is limited to the greater of:

- Ten times your basis in all qualified stock of the issuer you sold or exchanged during the year; or
- \$10 million (\$5 million for married individuals filing separately), minus the amount of gain from the stock of the same issuer you used to figure your exclusion in earlier years.

**How to report gain.** Report the sale or exchange on Form 8949, Part II, with the appropriate box checked, as you would if you were not taking the exclusion. Then enter "Q" in column (f) and enter the amount of the excluded gain as a negative number in column (g). Put it in parentheses to show it is negative. Complete all remaining columns. If you are completing line 18 of Schedule D (Form 1040), enter as a positive number the amount of the exclusion on line 2 of the 28% Rate Gain Worksheet in the Schedule D (Form 1040) instructions. But if you exclude 60% of the gain, enter  $\frac{2}{3}$  of the exclusion. If you exclude 75% of the gain, enter  $\frac{1}{3}$  of the exclusion. If you exclude 100% of the gain, do not enter an amount.



*Report these transactions on Form 8949 with the correct box checked. See Form 8949 and the Instructions for Form 8949.*

**More information.** For information about additional requirements that may apply, see section 1202 of the Internal Revenue Code.

**Empowerment zone business stock.** You can exclude up to 60% of your gain if you meet all the following additional requirements.

1. You sell or trade stock in a corporation that qualifies as an empowerment zone business during substantially all of the time you held the stock.
2. You acquired the stock after December 21, 2000, and before February 18, 2009.
3. The gain from the sale or exchange of the stock is attributable to periods on or before December 31, 2018.

Condition 1 will still be met if the corporation ceased to qualify after the 5-year period that begins on the date you acquired the stock. However, the gain that qualifies for the 60%



exclusion cannot be more than the gain you would have had if you had sold the stock on the date the corporation ceased to qualify.

**Note.** If either the 75% or 100% exclusion applies, then the 60% exclusion does not apply.

## **Exclusion of Gain From DC Zone Assets**

If you sold or exchanged a District of Columbia Enterprise Zone (DC Zone) asset that you acquired after 1997 and before 2012 and held for more than 5 years, you may be able to exclude the amount of qualified capital gain that you would otherwise include in income. The exclusion applies to an interest in, or property of, certain businesses operating in the District of Columbia.

**How to report.** Report the sale or exchange on Form 8949, Part II, as you would if you were not taking the exclusion. Enter "X" in column (f) and enter the amount of the

exclusion as a negative number in column (g). Put the amount in parentheses to show it is negative. See the instructions for Form 8949, columns (f), (g), and (h). Complete all remaining columns.

## **Rollover of Gain From Empowerment Zone Assets**

The election to roll over gain from the sale of empowerment zone assets doesn't apply to sales in tax years beginning after 2020. See section 1397B.

# Reporting Capital Gains and Losses

Generally, report capital gains and losses on Form 8949. Complete Form 8949 before you complete line 1b, 2, 3, 8b, 9, or 10 of Schedule D (Form 1040).

Use Form 8949 to report:

- The sale or exchange of a capital asset not reported on another form or schedule,

- Gains from involuntary conversions (other than from casualty or theft) of capital assets not held for business or profit,
- Nonbusiness bad debts, and
- Worthlessness of a security.

Use Schedule D (Form 1040) to report:

- Overall gain or loss from transactions reported on Form 8949;

- Certain transactions you do not have to report on Form 8949;
- Gain from Form 2439 or 6252 or Part I of Form 4797;
- Gain or loss from Form 4684, 6781, or 8824;
- Gain or loss from a partnership, S corporation, estate, or trust;
- Capital gain distributions not reported directly on your Form 1040; and
- Capital loss carryover from the previous year to the current year.

On Form 8949, enter all sales and exchanges of capital assets, including stocks, bonds, etc., and real estate (if not reported on Form 4684, 4797, 6252, 6781, 8824, or line 1a or 8a of Schedule D (Form 1040)). Include these transactions even if you did not receive a Form 1099-B or Form 1099-S, Proceeds From Real Estate Transactions, for the transaction.

Report short-term gains or losses in Part I.  
Report long-term gains or losses in Part II.  
Use as many Forms 8949 as you need.

**Exceptions to filing Form 8949 and Schedule D (Form 1040).** There are certain situations where you may not have to file Form 8949 and/or Schedule D (Form 1040).

***Exception 1.*** You do not have to file Form 8949 or Schedule D (Form 1040) if you have no capital losses and your only capital gains are capital gain distributions from box 2a of Form(s) 1099-DIV. If any Form 1099-DIV you receive has an amount in box 2b (unrecaptured section 1250 gain), box 2c (section 1202 gain), or box 2d (collectibles (28%) gain), you do not qualify for this exception.

If you qualify for this exception, report your capital gain distributions directly on Form 1040, line 7, and check the box on that line. Also use the Qualified Dividends and Capital

Gain Tax Worksheet in the Instructions for Forms 1040 to figure your tax.

***Exception 2.*** You must file Schedule D (Form 1040), but generally do not have to file Form 8949, if *Exception 1* above does not apply and your only capital gains and losses are:

- Capital gain distributions;
- A capital loss carryover;
- A gain from Form 2439 or 6252 or Part I of Form 4797;
- A gain or loss from Form 4684, 6781, or 8824;
- A gain or loss from a partnership, S corporation, estate, or trust; or
- Gains and losses from transactions for which you received a Form 1099-B that shows basis was reported to the IRS, for which the Ordinary box in box 2 is not checked, and for which you do not need to make any adjustments in

column (g) of Form 8949 or enter any codes in column (f) of Form 8949.

**Installment sales.** You cannot use the installment method to report a gain from the sale of stock or securities traded on an established securities market. You must report the entire gain in the year of sale (the year in which the trade date occurs).

**At-risk rules.** Special at-risk rules apply to most income-producing activities. These rules limit the amount of loss you can deduct to the amount you risk losing in the activity. The at-risk rules also apply to a loss from the sale or trade of an asset used in an activity to which the at-risk rules apply. For more information, see Pub. 925. Use Form 6198, At-Risk Limitations, to figure the amount of loss you can deduct.

**Passive activity gains and losses.** If you have gains or losses from a passive activity, you may also have to report them on Form 8582. In some cases, the loss may be limited

under the passive activity rules. Refer to Form 8582 and its instructions for more information about reporting capital gains and losses from a passive activity.

**Form 1099-B transactions.** If you sold property, such as stocks, bonds, or certain commodities, through a broker, you should receive Form 1099-B from the broker. Use the Form 1099-B to complete Form 8949 and/or Schedule D (Form 1040).

If you received a Form 1099-B for a transaction, you usually report the transaction on Form 8949. Report the proceeds shown in box 1d of Form 1099-B in column (d) of either Part I or Part II of Form 8949, whichever applies.

Include in column (g) any selling expenses or option premiums not reflected in box 1d or box 1e of Form 1099-B. If you include a selling expense in column (g), enter "E" in column (f).



Enter the basis shown in box 1e in column (e). If the basis shown on Form 1099-B is not correct, see the table How To Complete Form 8949, Columns (f) and (g), in the Instructions for Form 8949 for the adjustment you must make. If no basis is shown on Form 1099-B, enter the correct basis of the property in column (e). See the instructions for Form 1099-B, Form 8949, and Schedule D (Form 1040) for more information.

**Example 1.** You sold 100 shares of Fund HIJ for \$2,500. You paid a \$75 commission to the broker for handling the sale. Your Form 1099-B shows that the net sales proceeds, \$2,425 (\$2,500 – \$75), were reported to the IRS. Report \$2,425 in column (d) of Form 8949. Complete columns (a), (b), (c), and (e).

**Example 2.** You sold 200 shares of Fund KLM for \$10,000. You paid a \$100 commission at the time of the sale. The broker reported the gross proceeds to the IRS on Form 1099-B, so on Form 8949, you enter “E” in column (f),

\$10,000 in column (d), and \$100 as a negative adjustment in column (g). Complete all remaining columns.

***Section 1256 contracts and straddles.***

Use Form 6781 to report gains and losses from section 1256 contracts and straddles before entering these amounts on Schedule D (Form 1040). Include a copy of Form 6781 with your income tax return.

***Market discount bonds.*** Report the sale or trade of a market discount bond on Part I or Part II of Form 8949, whichever is appropriate. See the table How To Complete Form 8949, Columns (f) and (g), in the Instructions for Form 8949 to help you figure the amounts to report for a sale or trade of a market discount bond. Use the Worksheet for Accrued Market Discount Adjustment in Column (g) in those instructions to figure the adjusted accrued market discount. Also report the amount of accrued market discount as interest income on Schedule B (Form 1040),

line 1, and identify it as "Accrued Market Discount." See the Instructions for Form 8949 for more information.

**Form 1099-CAP transactions.** If a corporation in which you own stock has had a change in control or a substantial change in capital structure, you should receive Form 1099-CAP, Changes in Corporate Control and Capital Structure, from the corporation. Use the Form 1099-CAP to fill in Form 8949. If your computations show that you would have a loss because of the change, do not enter any amounts on Form 8949 or Schedule D (Form 1040) as a result of this transaction.

Report the aggregate amount received shown in box 2 of Form 1099-CAP as the sales price in column (d) of either Part I or Part II of Form 8949, whichever applies.

**Form 1099-S transactions.** If you sold or traded reportable real estate, you should generally receive from the real estate

reporting person a Form 1099-S showing the gross proceeds.

“Reportable real estate” is defined as any present or future ownership interest in any of the following.

- Improved or unimproved land, including air space.
- Inherently permanent structures, including any residential, commercial, or industrial building.
- A condominium unit and its accessory fixtures and common elements, including land.
- Stock in a cooperative housing corporation (as defined in section 216 of the Internal Revenue Code).
- Any noncontingent interest in standing timber.

A “real estate reporting person” could include the buyer's attorney, your attorney, the title

or escrow company, a mortgage lender, your broker, the buyer's broker, or the person acquiring the biggest interest in the property.

Your Form 1099-S will show the gross proceeds from the sale or exchange in box 2. See the Instructions for Form 8949 and the Instructions for Schedule D (Form 1040) for how to report these transactions and include them in Part I or Part II of Form 8949, as appropriate. However, report like-kind exchanges on Form 8824 instead.

It is unlawful for any real estate reporting person to separately charge you for complying with the requirement to file Form 1099-S.

**Nominees.** If you receive gross proceeds as a nominee (that is, the gross proceeds are in your name but actually belong to someone else), see the Instructions for Form 8949 for how to report these amounts on Form 8949.

***File Form 1099-B or Form 1099-S with the IRS.*** If you received gross proceeds as a nominee in 2023, you must file a Form 1099-B or Form 1099-S for those proceeds with the IRS. Send the Form 1099-B or Form 1099-S with a Form 1096 to your Internal Revenue Service Center by February 28, 2024 (April 1, 2024, if you file Form 1099-B or Form 1099-S electronically). Give the actual owner of the proceeds Copy B of the Form 1099-B or Form 1099-S by February 15, 2024. On Form 1099-B, you should be listed as the "Payer." The actual owner should be listed as the "Recipient." On Form 1099-S, you should be listed as the "Filer." The actual owner should be listed as the "Transferor." You do not have to file a Form 1099-B or Form 1099-S to show proceeds for your spouse. For more information about the reporting requirements and the penalties for failure to file (or furnish) certain information returns, see the General Instructions for Certain Information Returns.

**Sale of property bought at various times.**

If you sell a block of stock or other property that you bought at various times, report the short-term gain or loss from the sale on one row in Part I of Form 8949 and the long-term gain or loss on one row in Part II of Form 8949. Enter "Various" in column (b) for the "Date acquired."

**Sale expenses.** On Form 8949, include in column (g) any expense of sale, such as broker's fees, commissions, state and local transfer taxes, and option premiums, unless you reported the net sales price in column (d). If you include an expense of sale in column (g), enter "E" in column (f).

**Short-term gains and losses.** Capital gain or loss on the sale or trade of investment property held 1 year or less is a short-term capital gain or loss. You report it in Part I of Form 8949.

You combine your share of short-term capital gain or loss from partnerships, S

corporations, and fiduciaries, and any short-term capital loss carryover, with your other short-term capital gains and losses to figure your net short-term capital gain or loss on line 7 of Schedule D (Form 1040).

**Long-term gains and losses.** A capital gain or loss on the sale or trade of investment property held more than 1 year is a long-term capital gain or loss. You report it in Part II of Form 8949.



You also report the following in Part II of Schedule D (Form 1040).

- Undistributed long-term capital gains from a mutual fund (or other regulated investment company) or REIT.
- Your share of long-term capital gains or losses from partnerships, S corporations, and fiduciaries.
- All capital gain distributions from mutual funds and REITs not reported directly on Form 1040, line 7.
- Long-term capital loss carryovers.

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Worksheet 4-1. **Capital Loss Carryover Worksheet**

Keep for Your Records 

Use this worksheet to figure your capital loss carryovers from 2023 to 2024 if Schedule D (Form 1040), line 21, is a loss and (a) that loss is a smaller loss than the loss on Schedule D (Form 1040), line 16, or (b) if the amount on your 2023 Form 1040, line 15, would be less than zero if you could enter a negative amount on that line. Otherwise, you do not have any carryovers.

1. Enter the amount from Form 1040, line 15. If the amount would have been a loss, if you could enter a negative number on that line, enclose the amount in parentheses .....	1. _____
2. Enter the loss from Schedule D (Form 1040), line 21, as a positive amount .....	2. _____
3. Combine lines 1 and 2. If zero or less, enter -0- .....	3. _____
4. Enter the smaller of line 2 or line 3 .....	4. _____
<b>If line 7 of Schedule D is a loss, go to line 5; otherwise, enter -0- on line 5 and go to line 9.</b>	
5. Enter the loss from Schedule D (Form 1040), line 7, as a positive amount .....	5. _____
6. Enter any gain from Schedule D (Form 1040), line 15. If a loss, enter -0- .....	6. _____
7. Add lines 4 and 6 .....	7. _____
8. <b>Short-term capital loss carryover to 2024.</b> Subtract line 7 from line 5. If zero or less, enter -0- .....	8. _____
<b>If line 15 of Schedule D is a loss, go to line 9; otherwise, skip lines 9 through 13.</b>	
9. Enter the loss from Schedule D (Form 1040), line 15, as a positive amount .....	9. _____
10. Enter any gain from Schedule D (Form 1040), line 7. If a loss, enter -0- .....	10. _____
11. Subtract line 5 from line 4. If zero or less, enter -0- .....	11. _____
12. Add lines 10 and 11 .....	12. _____
13. <b>Long-term capital loss carryover to 2024.</b> Subtract line 12 from line 9. If zero or less, enter -0- .....	13. _____

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The result after combining these items with your other long-term capital gains and losses is your net long-term capital gain or loss (line 15 of Schedule D (Form 1040)).

**Total net gain or loss.** To figure your total net gain or loss, combine your net short-term capital gain or loss (Schedule D (Form 1040), line 7) with your net long-term capital gain or loss (Schedule D (Form 1040), line 15). Enter the result on Schedule D (Form 1040), Part III, line 16. If your losses are more than your gains, see *Capital Losses*, next. If both lines 15 and 16 of your Schedule D (Form 1040) are gains and your taxable income on your Form 1040 is greater than zero, see *Capital Gain Tax Rates*, later.

## **Capital Losses**

If your capital losses are more than your capital gains, you can claim a capital loss deduction. Report the deduction on Form 1040, line 7, enclosed in parentheses.

**Limit on deduction.** Your allowable capital loss deduction, figured on Schedule D (Form 1040), is the lesser of:

- \$3,000 (\$1,500 if you are married and file a separate return), or
- Your total net loss as shown on line 16 of Schedule D (Form 1040).

You can use your total net loss to reduce your income dollar for dollar, up to the \$3,000 limit.

**Capital loss carryover.** If you have a total net loss on line 16 of Schedule D (Form 1040) that is more than the yearly limit on capital loss deductions, you can carry over the unused part to the next year and treat it as if you had incurred it in that next year. If part of the loss is still unused, you can carry it over to later years until it is completely used up.

When you figure the amount of any capital loss carryover to the next year, you must

take the current year's allowable deduction into account, whether or not you claimed it and whether or not you filed a return for the current year.

When you carry over a loss, it remains long term or short term. A long-term capital loss you carry over to the next tax year will reduce that year's long-term capital gains before it reduces that year's short-term capital gains.

***Figuring your carryover.*** The amount of your capital loss carryover is the amount of your total net loss that is more than the lesser of:

1. Your allowable capital loss deduction for the year, or
2. Your taxable income increased by your allowable capital loss deduction for the year.

If your deductions are more than your gross income for the tax year, use your negative

taxable income in figuring the amount in (2) above.

Complete Worksheet 4-1 to determine the part of your capital loss that you can carry over.

***Example.*** Bob and Shelly sold securities in 2023. The sales resulted in a capital loss of \$7,000. They had no other capital transactions. Their taxable income was \$26,000. On their joint 2023 return, they can deduct \$3,000. The unused part of the loss, \$4,000 (\$7,000 – \$3,000), can be carried over to 2024.

If their capital loss had been \$2,000, their capital loss deduction would have been \$2,000. They would have no carryover.

***Use short-term losses first.*** When you figure your capital loss carryover, use your short-term capital losses first, even if you incurred them after a long-term capital loss. If you have not reached the limit on the



capital loss deduction after using the short-term capital losses, use the long-term capital losses until you reach the limit.

***Decedent's capital loss.*** A capital loss sustained by a decedent during his or her last tax year (or carried over to that year from an earlier year) can be deducted only on the final income tax return filed for the decedent. The capital loss limits discussed earlier still apply in this situation. The decedent's estate cannot deduct any of the loss or carry it over to following years.

***Joint and separate returns.*** If you and your spouse once filed separate returns and are now filing a joint return, combine your separate capital loss carryovers. However, if you and your spouse once filed a joint return and are now filing separate returns, any capital loss carryover from the joint return can be deducted only on the return of the spouse who actually had the loss.

## Capital Gain Tax Rates

The tax rates that apply to a net capital gain are generally lower than the tax rates that apply to other income. These lower rates are called the maximum capital gain rates.

The term “net capital gain” means the amount by which your net long-term capital gain for the year is more than your net short-term capital loss.

For 2023, the maximum capital gain rates are 0%, 15%, 20%, 25%, and 28%. See Table 4-4 for details.



*If you figure your tax using the maximum capital gain rate and the regular tax computation results in a lower tax, the regular tax computation applies.*

***Example.*** All of your net capital gain is from selling collectibles, so the capital gain rate would be 28%. If you are otherwise subject to a rate lower than 28%, the 28% rate does not apply.

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Table 4-4. What Is Your Maximum Capital Gain Rate?

IF your net capital gain is from...	AND...	THEN your maximum capital gain rate is...
collectibles gain		28%
eligible gain on qualified small business stock minus the section 1202 exclusion		28%
unrecaptured section 1250 gain		25%
other gain <sup>1</sup> and the regular tax rate that would apply is 37%	<b>your taxable income is...</b> \$553,851 or more if married filing jointly or surviving spouse; \$523,051 or more if head of household; \$276,901 or more if married filing separately; \$492,301 or more if single; or \$14,651 or more if estate or trust...	20%
other gain <sup>1</sup> and the regular tax rate that would apply is 22%, 24%, 32%, or 35%	<b>your taxable income is...</b> \$89,251 – \$553,850 if married filing jointly or surviving spouse; \$59,751 – \$523,050 if head of household; \$44,626 – \$276,900 if married filing separately; \$44,626 – \$492,300 if single; or \$3,001 – \$14,650 if estate or trust...	15%
other gain <sup>1</sup> and the regular tax rate that would apply is 10% or 12%	<b>your taxable income is...</b> \$0 – \$89,250 if married filing jointly or surviving spouse; \$0 – \$59,750 if head of household; \$0 – \$44,625 if married filing separately; \$0 – \$44,625 if single; or \$0 – \$3,000 if estate or trust...	0%
<sup>1</sup> “Other gain” means any gain that is not collectibles gain, gain on small business stock, or unrecaptured section 1250 gain.		

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**Investment interest deducted.** If you claim a deduction for investment interest, you may have to reduce the amount of your net capital gain that is eligible for the capital gain tax rates. Reduce it by the amount of the net capital gain you choose to include in investment income when figuring the limit on your investment interest deduction. This is done on the Schedule D Tax Worksheet or the Qualified Dividends and Capital Gain Tax Worksheet. For more information about the limit on investment interest, see *Interest Expenses* in chapter 3.

**28% rate gain.** This gain includes gain or loss from the sale of collectibles and the eligible gain from the sale of qualified small business stock minus the section 1202 exclusion.

***Collectibles gain or loss.*** This is gain or loss from the sale or trade of a work of art, rug, antique, metal (such as gold, silver, and

platinum bullion), gem, stamp, coin, or alcoholic beverage held more than 1 year.

Collectibles gain includes gain from the sale of an interest in a partnership, S corporation, or trust due to unrealized appreciation of collectibles.

***Gain on qualified small business stock.*** If you realized a gain from qualified small business stock that you held more than 5 years, you can generally exclude some or all of your gain under section 1202. The eligible gain minus your section 1202 exclusion is a 28% rate gain. See *Gains on Qualified Small Business Stock*, earlier in this chapter.

**Unrecaptured section 1250 gain.**

Generally, this is any part of your capital gain from selling section 1250 property (real property) that is due to depreciation (but not more than your net section 1231 gain), reduced by any net loss in the 28% group. Use the Unrecaptured Section 1250 Gain Worksheet in the Schedule D (Form 1040)



instructions to figure your unrecaptured section 1250 gain. For more information about section 1250 property and section 1231 gain, see chapter 3 of Pub. 544.

**Tax computation using maximum capital gain rates.** Use the Qualified Dividends and Capital Gain Tax Worksheet or the Schedule D Tax Worksheet (whichever applies) to figure your tax if you have qualified dividends or net capital gain. You have net capital gain if Schedule D (Form 1040), lines 15 and 16, are both gains.

***Schedule D Tax Worksheet.*** Use the Schedule D Tax Worksheet in the Schedule D (Form 1040) instructions to figure your tax if:

- You have to file Schedule D (Form 1040); and
- Schedule D (Form 1040), line 18 (28% rate gain) or line 19 (unrecaptured section 1250 gain), is more than zero.

***Qualified Dividends and Capital Gain Tax Worksheet.***

If you do not have to use the Schedule D Tax Worksheet (as explained above) and any of the following apply, use the Qualified Dividends and Capital Gain Tax Worksheet in the Instructions for Form 1040 to figure your tax.

- You received qualified dividends. (See Qualified Dividends in chapter 1.)
- You do not have to file Schedule D (Form 1040) and you received capital gain distributions. (See Exceptions to filing Form 8949 and Schedule D (Form 1040 ), earlier.)
- Schedule D (Form 1040), lines 15 and 16, are both more than zero.

**Alternative minimum tax.** These capital gain rates are also used in figuring alternative minimum tax.

# **Special Rules for Traders in Securities or Commodities**

Special rules apply if you are a trader in securities or commodities in the business of buying and selling securities or commodities for your own account. To be engaged in business as a trader in securities or commodities, you must meet all the following conditions.

- You must seek to profit from daily market movements in the prices of securities or commodities and not from dividends, interest, or capital appreciation.
- Your activity must be substantial.
- You must carry on the activity with continuity and regularity.

The following facts and circumstances should be considered in determining if your activity is a securities or commodities trading business.

- Typical holding periods for securities or commodities bought and sold.
- The frequency and dollar amount of your trades during the year.
- The extent to which you pursue the activity to produce income for a livelihood.
- The amount of time you devote to the activity.

If your trading activities do not meet the above definition of a business, you are considered an investor, and not a trader. It does not matter whether you call yourself a trader or a “day trader.”

## **How To Report**

Transactions from trading activities result in capital gains and losses (unless a section 475(f) election has been made) and must be reported on Form 8949 and Schedule D (Form 1040), as appropriate. Losses from these

transactions are subject to the limit on capital losses explained earlier in this chapter.

**Mark-to-market election made.** If you made the section 475(f) mark-to-market election, you should report all gains and losses from trading as ordinary gains and losses in Part II of Form 4797, instead of as capital gains and losses on Form 8949 and Schedule D (Form 1040). In that case,

securities or commodities (depending upon which election was made) held at the end of the year in your business as a trader are marked to market by treating them as if they were sold for fair market value on the last business day of the year and gain or loss is recognized. But do not mark to market any securities or commodities you held for investment. Report sales from those securities or commodities on Form 8949 and Schedule D (Form 1040), as appropriate, not Form 4797. See the Instructions for Form

8949 and the Instructions for Schedule D (Form 1040).

**Note.** You may be a trader in some securities or commodities and have some securities or commodities that are not held in connection with your activities as a trader, such as those held for investment. The special rules for marking to market discussed here do not apply to the securities or commodities held for investment. You must keep detailed records to distinguish those securities or commodities. The securities or commodities held for investment must be identified as such in your records on the day you acquired them (for example, by holding them in a separate brokerage account) specifically identified under section 475.

**Expenses.** Interest expense and other investment expenses that an investor would deduct on Schedule A (Form 1040) are deducted by a trader on Schedule C (Form 1040), Profit or Loss From Business, if the

expenses are from the trading business. Commissions and other costs of acquiring or disposing of securities or commodities (depending upon which election was made) are not deductible but must be used to figure gain or loss. The limit on investment interest expense, which applies to investors, does not apply to interest paid or incurred in a trading business.

**Self-employment tax.** Gains and losses from selling securities or commodities as a trader are not subject to self-employment tax. This is true whether the election is made or not. For an exception that applies to section 1256 contracts, see *Self-Employment Income*, earlier.

## **How To Make the Mark-to-Market Election**

To make the mark-to-market election for 2024, you must have filed an election statement no later than the due date for your

2023 return (without regard to extensions). The statement must be attached to that return or with a properly filed request for extension of time to file that 2023 return (Form 4868, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return). The statement must have included the following information.

- That you are making an election under section 475(f)(1) or (f)(2) of the Internal Revenue Code.
- The first tax year for which the election is effective.
- The trade or business for which you are making the election.

If you are a new taxpayer and not required to file a 2023 income tax return, you make the election for 2023 by placing the above statement in your books and records no later than March 15, 2024. Attach a copy of the statement to your 2024 return.



If your method of accounting for 2023 is inconsistent with the mark-to-market election, you must change your method of accounting for securities under Revenue Procedure 2023-24 (or its successor), available at [IRS.gov/irb/ 2023-28 IRB#REV-PROC-2023-24](https://www.irs.gov/irb/2023-28_IRB#REV-PROC-2023-24). Revenue Procedure 2023-24 requires you to file Form 3115, Application for Change in Accounting Method. Follow its instructions. Enter "64" on line 1a of the Form 3115.

If you made a mark-to-market election within 5 taxable years of revoking a prior election, you can resume the mark-to-market election of the new election. To restart the mark-to-market election, you must file an election statement no later than the due date for your 2023 return (without regard to extensions) under Revenue Procedure 99-17, sections 5.03 and 5.04 and follow the non-automatic change procedures to request a change in

method of accounting as described in Rev. Proc. 2015-13.

Once you make the election, it will apply to 2024 and all later tax years, unless you get permission from the IRS to revoke it. The effect of making the election is described under *Mark-to-market election made*, earlier.

If you want to revoke a prior mark-to-market election within the 5 taxable years ending with the year of change for the election, you must follow the non-automatic change procedures in Revenue Procedure 2015-13 and Revenue Procedure 2023-24, section 24.02(9).

For more information on this election, see Revenue Procedure 99-17, on page 52 of Internal Revenue Bulletin 1999-7 at [IRS.gov/pub/irs-irbs/irb99-07.pdf](https://www.irs.gov/pub/irs-irbs/irb99-07.pdf).

For information about method of accounting using the non-automatic change, see Revenue Procedure 2015-13 in Internal

Revenue Bulletin 2015-5, available at [IRS.gov/irb/2015-05 IRB#RP-2015-13](https://www.irs.gov/irb/2015-05_IRB#RP-2015-13) and Revenue Procedure 2023-24 in Internal Revenue Bulletin 2023-28, available at [IRS.gov/irb/2023-28 IRB#REVPROC-2023-24](https://www.irs.gov/irb/2023-28_IRB#REVPROC-2023-24).

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## 5.

# How To Get Tax Help

If you have questions about a tax issue; need help preparing your tax return; or want to download free publications, forms, or instructions, go to [IRS.gov](https://www.irs.gov) to find resources that can help you right away.

**Preparing and filing your tax return.** After receiving all your wage and earnings statements (Forms W-2, W-2G, 1099-R, 1099-MISC, 1099-NEC, etc.); unemployment compensation statements (by mail or in a digital format) or other government payment statements (Form 1099-G); and interest, dividend, and retirement statements from banks and investment firms (Forms 1099), you have several options to choose from to prepare and file your tax return. You can prepare the tax return yourself, see if you qualify for free tax preparation, or hire a tax professional to prepare your return.

**Free options for tax preparation.** Your options for preparing and filing your return online or in your local community, if you qualify, include the following.

- **Free File.** This program lets you prepare and file your federal individual income tax return for free using software or Free File Fillable Forms. However, state tax preparation may not be available through Free File. Go to [IRS.gov/FreeFile](https://www.irs.gov/FreeFile) to see if you qualify for free online federal tax preparation, e-filing, and direct deposit or payment options.
- **VITA.** The Volunteer Income Tax Assistance (VITA) program offers free tax help to people with low-to-moderate incomes, persons with disabilities, and limited-English-speaking taxpayers who need help preparing their own tax returns. Go to [IRS.gov/ VITA](https://www.irs.gov/VITA), download the free

IRS2Go app, or call 800-906-9887 for information on free tax return preparation.

- **TCE.** The Tax Counseling for the Elderly (TCE) program offers free tax help for all taxpayers, particularly those who are 60 years of age and older. TCE volunteers specialize in answering questions about pensions and retirement-related issues unique to seniors. Go to [IRS.gov/TCE](https://www.irs.gov/TCE) or download the free IRS2Go app for information on free tax return preparation.
- **MilTax.** Members of the U.S. Armed Forces and qualified veterans may use MilTax, a free tax service offered by the Department of Defense through Military OneSource. For more information, go to [MilitaryOneSource](https://www.MilitaryOneSource.com) ([MilitaryOneSource.mil/MilTax](https://www.MilitaryOneSource.com/MilTax)).

Also, the IRS offers Free Fillable Forms, which can be completed online and then e-filed regardless of income.

**Using online tools to help prepare your return.** Go to [IRS.gov/Tools](https://www.irs.gov/Tools) for the following.

- The [Earned Income Tax Credit Assistant](https://www.irs.gov/EITCAssistant) ([IRS.gov/ EITCAssistant](https://www.irs.gov/EITCAssistant)) determines if you're eligible for the earned income credit (EIC).
- The [Online EIN Application](https://www.irs.gov/EIN) ([IRS.gov/EIN](https://www.irs.gov/EIN)) helps you get an employer identification number (EIN) at no cost.
- The [Tax Withholding Estimator](https://www.irs.gov/W4App) ([IRS.gov/W4App](https://www.irs.gov/W4App)) makes it easier for you to estimate the federal income tax you want your employer to withhold from your paycheck. This is tax withholding. See how your withholding affects your refund, take-home pay, or tax due.



- The [First-Time Homebuyer Credit Account Look-up \(IRS.gov/HomeBuyer\)](https://www.irs.gov/firsttimehomebuyer) tool provides information on your repayments and account balance.
- The [Sales Tax Deduction Calculator \(IRS.gov/SalesTax\)](https://www.irs.gov/sales-tax) figures the amount you can claim if you itemize deductions on Schedule A (Form 1040).



**Getting answers to your tax questions.** On IRS.gov, you can get up-to-date information on current events and changes in tax law.

- [IRS.gov/Help](https://www.irs.gov/help): A variety of tools to help you get answers to some of the most common tax questions.
- [IRS.gov/ITA](https://www.irs.gov/ita): The Interactive Tax Assistant, a tool that will ask you questions and, based on your input,

provide answers on a number of tax topics.

- [IRS.gov/Forms](https://www.irs.gov/forms): Find forms, instructions, and publications. You will find details on the most recent tax changes and interactive links to help you find answers to your questions.
- You may also be able to access tax information in your e-filing software.

### **Need someone to prepare your tax**

**return?** There are various types of tax return preparers, including enrolled agents, certified public accountants (CPAs), accountants, and many others who don't have professional credentials. If you choose to have someone prepare your tax return, choose that preparer wisely. A paid tax preparer is:

- Primarily responsible for the overall substantive accuracy of your return,
- Required to sign the return, and

- Required to include their preparer tax identification number (PTIN).



*Although the tax preparer always signs the return, you're ultimately responsible for providing all the information required for the preparer to accurately prepare your return and for the accuracy of every item reported on the return. Anyone paid to prepare tax returns for others should have a thorough understanding of tax matters. For more information on how to choose a tax preparer, go to [Tips for Choosing a Tax Preparer](#) on IRS.gov.*

**Employers can register to use Business Services Online.** The Social Security Administration (SSA) offers online service at [SSA.gov/employer](https://ssa.gov/employer) for fast, free, and secure W-2 filing options to CPAs, accountants, enrolled agents, and individuals who process Form W-2, Wage and Tax Statement, and Form W-2c, Corrected Wage and Tax Statement.

**IRS social media.** Go to [IRS.gov/SocialMedia](https://www.irs.gov/SocialMedia) to see the various social media tools the IRS uses to share the latest information on tax changes, scam alerts, initiatives, products, and services. At the IRS, privacy and security are our highest priority. We use these tools to share public information with you. **Don't** post your social security number (SSN) or other confidential information on social media sites. Always protect your identity when using any social networking site.

The following IRS YouTube channels provide short, informative videos on various tax-related topics in English, Spanish, and ASL.

- [Youtube.com/irsvideos.](https://www.youtube.com/irsvideos)
- [Youtube.com/irsvideomultilingua.](https://www.youtube.com/irsvideomultilingua)
- [Youtube.com/irsvideosASL.](https://www.youtube.com/irsvideosASL)

**Watching IRS videos** The IRS Video portal

[\(\[IRSVideos.gov\]\(https://www.irs.gov/irm/1/irs\_videos/1\_irs\_videos.htm\)\)](https://www.irs.gov/irm/1/irs_videos/1_irs_videos.htm) contains video and audio presentations for individuals, small businesses, and tax professionals.

**Online tax information in other languages.** You can find information on [IRS.gov/MyLanguage](https://www.irs.gov/MyLanguage) if English isn't your native language.

**Free Over-the-Phone Interpreter (OPI) Service.** The IRS is committed to serving taxpayers with limited-English proficiency (LEP) by offering OPI services. The OPI Service is a federally funded program and is available at Taxpayer Assistance Centers (TACs), most IRS offices, and every VITA/TCE tax return site. The OPI Service is accessible in more than 350 languages.

**Accessibility Helpline available for taxpayers with disabilities.** Taxpayers who need information about accessibility services can call 833-690-0598. The Accessibility Helpline can answer questions related to current and future accessibility products and

services available in alternative media formats (for example, braille, large print, audio, etc.). The Accessibility Helpline does not have access to your IRS account. For help with tax law, refunds, or account-related issues, go to [IRS.gov/LetUsHelp](https://www.irs.gov/LetUsHelp).

**Note.** Form 9000, Alternative Media Preference, or Form 9000(SP) allows you to elect to receive certain types of written correspondence in the following formats.

- Standard Print.
- Large Print.
- Braille.
- Audio (MP3).
- Plain Text File (TXT).
- Braille Ready File (BRF).

**Disasters.** Go to [IRS.gov/DisasterRelief](https://www.irs.gov/DisasterRelief) to review the available disaster tax relief.

**Getting tax forms and publications.** Go to [IRS.gov/ Forms](https://www.irs.gov/forms) to view, download, or print all the forms, instructions, and publications you may need. Or, you can go to [IRS.gov/OrderForms](https://www.irs.gov/OrderForms) to place an order.

**Getting tax publications and instructions in eBook format.** Download and view most tax publications and instructions (including the Instructions for Form 1040) on mobile devices as eBooks at [IRS.gov/eBooks](https://www.irs.gov/eBooks).

IRS eBooks have been tested using Apple's iBooks for iPad. Our eBooks haven't been tested on other dedicated eBook readers, and eBook functionality may not operate as intended.

**Access your online account (individual taxpayers only).** Go to [IRS.gov/Account](https://www.irs.gov/Account) to securely access information about your federal tax account.

- View the amount you owe and a breakdown by tax year.

- See payment plan details or apply for a new payment plan.
- Make a payment or view 5 years of payment history and any pending or scheduled payments.
- Access your tax records, including key data from your most recent tax return, and transcripts.
- View digital copies of select notices from the IRS.
- Approve or reject authorization requests from tax professionals.
- View your address on file or manage your communication preferences.

**Get a transcript of your return.** With an online account, you can access a variety of information to help you during the filing season. You can get a transcript, review your most recently filed tax return, and get your



adjusted gross income. Create or access your online account at [IRS.gov/ Account](https://www.irs.gov/Account).

**Tax Pro Account.** This tool lets your tax professional submit an authorization request to access your individual taxpayer IRS online account. For more information, go to [IRS.gov/TaxProAccount](https://www.irs.gov/TaxProAccount).

**Using direct deposit.** The safest and easiest way to receive a tax refund is to e-file and choose direct deposit, which securely and electronically transfers your refund directly into your financial account. Direct deposit also avoids the possibility that your check could be lost, stolen, destroyed, or returned undeliverable to the IRS. Eight in 10 taxpayers use direct deposit to receive their refunds. If you don't have a bank account, go to [IRS.gov/](https://www.irs.gov/)

[DirectDeposit](https://www.irs.gov/DirectDeposit) for more information on where to find a bank or credit union that can open an account online.

## **Reporting and resolving your tax-related identity theft issues.**

- Tax-related identity theft happens when someone steals your personal information to commit tax fraud. Your taxes can be affected if your SSN is used to file a fraudulent return or to claim a refund or credit.
- The IRS doesn't initiate contact with taxpayers by email, text messages (including shortened links), telephone calls, or social media channels to request or verify personal or financial information. This includes requests for personal identification numbers (PINs), passwords, or similar information for credit cards, banks, or other financial accounts.
- Go to [IRS.gov/IdentityTheft](https://www.irs.gov/identitytheft), the IRS Identity Theft Central webpage, for information on identity theft and data security protection for taxpayers, tax

professionals, and businesses. If your SSN has been lost or stolen or you suspect you're a victim of tax-related identity theft, you can learn what steps you should take.

- Get an Identity Protection PIN (IP PIN). IP PINs are six-digit numbers assigned to taxpayers to help prevent the misuse of their SSNs on fraudulent federal income tax returns. When you have an IP PIN, it prevents someone else from filing a tax return with your SSN. To learn more, go to [IRS.gov/IPPIN](https://www.irs.gov/ippin).

## **Ways to check on the status of your refund.**

- Go to [IRS.gov/Refunds](https://www.irs.gov/Refunds).
- Download the official IRS2Go app to your mobile device to check your refund status.

- Call the automated refund hotline at 800-829-1954.



*The IRS can't issue refunds before mid-February for returns that claimed the EIC or the additional child tax credit (ACTC). This applies to the entire refund, not just the portion associated with these credits.*

**Making a tax payment.** Payments of U.S. tax must be remitted to the IRS in U.S. dollars. [Digital assets](#) are **not** accepted. Go to [IRS.gov/Payments](https://www.irs.gov/Payments) for information on how to make a payment using any of the following options.

- [IRS Direct Pay](#): Pay your individual tax bill or estimated tax payment directly from your checking or savings account at no cost to you.
- [Debit Card, Credit Card, or Digital Wallet](#): Choose an approved payment processor to pay online or by phone.

- [Electronic Funds Withdrawal](#): Schedule a payment when filing your federal taxes using tax return preparation software or through a tax professional.
- [Electronic Federal Tax Payment System](#): Best option for businesses. Enrollment is required.
- [Check or Money Order](#): Mail your payment to the address listed on the notice or instructions.
- [Cash](#): You may be able to pay your taxes with cash at a participating retail store.
- [Same-Day Wire](#): You may be able to do same-day wire from your financial institution. Contact your financial institution for availability, cost, and time frames.

**Note.** The IRS uses the latest encryption technology to ensure that the electronic payments you make online, by phone, or

from a mobile device using the IRS2Go app are safe and secure. Paying electronically is quick, easy, and faster than mailing in a check or money order.

**What if I can't pay now?** Go to [IRS.gov/Payments](https://www.irs.gov/Payments) for more information about your options.

- Apply for an [online payment agreement](https://www.irs.gov/OPA) ([IRS.gov/ OPA](https://www.irs.gov/OPA)) to meet your tax obligation in monthly installments if you can't pay your taxes in full today. Once you complete the online process, you will receive immediate notification of whether your agreement has been approved.
- Use the [Offer in Compromise Pre-Qualifier](https://www.irs.gov/OIC) to see if you can settle your tax debt for less than the full amount you owe. For more information on the Offer in Compromise program, go to [IRS.gov/OIC](https://www.irs.gov/OIC).

**Filing an amended return.** Go to [IRS.gov/Form1040X](https://www.irs.gov/Form1040X) for information and updates.

**Checking the status of your amended return.** Go to [IRS.gov/WMAR](https://www.irs.gov/WMAR) to track the status of Form 1040-X amended returns.



*It can take up to 3 weeks from the date you filed your amended return for it to show up in our system, and processing it can take up to 16 weeks.*

**Understanding an IRS notice or letter you've received.** Go to [IRS.gov/Notices](https://www.irs.gov/Notices) to find additional information about responding to an IRS notice or letter.

**Responding to an IRS notice or letter.**

You can now upload responses to all notices and letters using the Document Upload Tool. For notices that require additional action, taxpayers will be redirected appropriately on IRS.gov to take further action. To learn more about the tool, go to [IRS.gov/Upload](https://www.irs.gov/Upload).

**Note.** You can use Schedule LEP (Form 1040), Request for Change in Language Preference, to state a preference to receive notices, letters, or other written communications from the IRS in an alternative language. You may not immediately receive written communications in the requested language. The IRS's commitment to LEP taxpayers is part of a multi-year timeline that began providing translations in 2023. You will continue to receive communications, including notices and letters, in English until they are translated to your preferred language.

**Contacting your local TAC.** Keep in mind, many questions can be answered on IRS.gov without visiting a TAC. Go to [IRS.gov/LetUsHelp](https://www.irs.gov/LetUsHelp) for the topics people ask about most. If you still need help, TACs provide tax help when a tax issue can't be handled online or by phone. All TACs now provide service by appointment, so you'll



know in advance that you can get the service you need without long wait times. Before you visit, go to [IRS.gov/TACLocator](https://www.irs.gov/TACLocator) to find the nearest TAC and to check hours, available services, and appointment options. Or, on the IRS2Go app, under the Stay Connected tab, choose the Contact Us option and click on "Local Offices."

# The Taxpayer Advocate Service (TAS) Is Here To Help You

**What is TAS?** TAS is an *independent* organization within the IRS that helps taxpayers and protects taxpayer rights. TAS strives to ensure that every taxpayer is treated fairly and that you know and understand your rights under the [Taxpayer Bill of Rights](#).

**How can you learn about your taxpayer rights?** The Taxpayer Bill of Rights describes 10 basic rights that all

taxpayers have when dealing with the IRS. Go to [TaxpayerAdvocate.IRS.gov](https://TaxpayerAdvocate.IRS.gov) to help you understand what these rights mean to you and how they apply. These are **your** rights. Know them. Use them.

**What can TAS do for you?** TAS can help you resolve problems that you can't resolve

with the IRS. And their service is free. If you qualify for their assistance, you will be assigned to one advocate who will work with you throughout the process and will do everything possible to resolve your issue. TAS can help you if:

- Your problem is causing financial difficulty for you, your family, or your business;
- You face (or your business is facing) an immediate threat of adverse action; or
- You've tried repeatedly to contact the IRS but no one has responded, or the IRS hasn't responded by the date promised.

**How can you reach TAS?** TAS has offices [in every state, the District of Columbia, and Puerto Rico](#). To find your advocate's number:

- Go to [TaxpayerAdvocate.IRS.gov/Contact-Us;](https://TaxpayerAdvocate.IRS.gov/Contact-Us;)
- Download Pub. 1546, The Taxpayer Advocate Service Is Your Voice at the IRS, available at [IRS.gov/pub/irspdf/p1546.pdf;](https://IRS.gov/pub/irspdf/p1546.pdf)
- Call the IRS toll free at 800-TAX-FORM (800-829-3676) to order a copy of Pub. 1546;
- Check your local directory; or
- Call TAS toll free at 877-777-4778.

**How else does TAS help taxpayers?** TAS works to resolve large-scale problems that affect many taxpayers. If you know of one of these broad issues, report it to TAS at [IRS.gov/SAMS.](https://IRS.gov/SAMS) Be sure to not include any personal taxpayer information.

# Low Income Taxpayer Clinics (LITCs)

LITCs are independent from the IRS and TAS. LITCs represent individuals whose income is below a certain level and who need to resolve tax problems with the IRS. LITCs can represent taxpayers in audits, appeals, and tax collection disputes before the IRS and in court. In addition, LITCs can provide information about taxpayer rights and responsibilities in different languages for individuals who speak English as a second language. Services are offered for free or a small fee. For more information or to find an

LITC near you, go to the LITC page at [TaxpayerAdvocate.IRS.gov/LITC](https://www.irs.gov/ taxpayeradvocate/irs.gov/LITC) or see IRS Pub. 4134, [Low Income Taxpayer Clinic List](https://www.irs.gov/pub/irs-pdf/p4134.pdf), at [IRS.gov/pub/irs-pdf/p4134.pdf](https://www.irs.gov/pub/irs-pdf/p4134.pdf).

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# Glossary

**Accrual method:** An accounting method under which you report your in-come when you earn it, whether or not you have received it. You generally de-duct your expenses when you incur a liability for them, rather than when you pay them.

**At-risk rules:** Rules that limit the amount of loss you may deduct to the amount you risk losing in the activity.

**Basis:** Basis is the amount of your investment in property for tax purposes. The basis of property you buy is usu-ally the cost. Basis is used to figure gain or loss on the sale or disposition of investment property.

**Below-market loan:** A demand loan (defined later) on which interest is pay-able at a rate below the applicable fed-eral rate, or a term loan where the amount loaned is more than the present value of all payments due un-der the loan.

**Call:** An option that entitles the purchaser to buy, at any time before a specified future date, property such as a stated number of shares of stock at a specified price.

**Cash method:** An accounting method under which you report your income in the year in which you actually or constructively receive it. You generally deduct your expenses in the year you pay them.

**Commodities trader:** A person who is actively engaged in trading section 1256 contracts and is registered with a domestic board of trade designated as a contract market by the Commodities Futures Trading Commission.

**Commodity future:** A contract made on a commodity exchange, calling for the sale or purchase of a fixed amount of a commodity at a future date for a fixed price.

**Covered security:** Covered securities are certain securities subject to added reporting



by your broker on any Form 1099-B you may receive. See the Instructions for Form 1099-B for more details.

**Conversion transaction:** Any transaction that you entered into after April 30, 1993, that meets both of these tests:

1. Substantially all of your expected return from the transaction is due to the time value of your net investment.
2. The transaction is one of the following:
  - a. A straddle, including any set of offsetting positions on stock.
  - b. Any transaction in which you acquire property (whether or not actively traded) at substantially the same time that you contract to sell the same property or substantially identical property at a price set in the contract.

- c. Any other transaction that is marketed or sold as producing capital gains from a transaction described in (1).

**Demand loan:** A loan payable in full at any time upon demand by the lender.

**Dividend:** A distribution of money or other property made by a corporation to its shareholders out of its earnings and profits.

**Equity option:** Any option:

- To buy or sell stock, or
- That is valued directly or indirectly by reference to any stock or narrow-based security index.

**Fair market value:** The price at which property would change hands between a willing buyer and a willing seller, both having reasonable knowledge of the relevant facts.

**Forgone interest:** The amount of interest that would be payable for any period if

interest accrued at the applicable federal rate and was payable annually on December 31, minus any interest payable on the loan for that period.

**Forward contract:** A contract to deliver a substantially fixed amount of property (including cash) for a substantially fixed price.

**Futures contract:** An exchange-traded contract to buy or sell a specified commodity or financial instrument at a specified price at a specified future date. See also *Commodity future*.

**Gift loan:** Any below-market loan where the forgone interest is in the nature of a gift.

**Interest:** Compensation for the use or forbearance of money.

**Investment interest:** The interest you paid or accrued on money you borrowed that is allocable to property held for investment.

**Limited partner:** A partner whose participation in partnership activities is restricted, and whose personal liability for partnership debts is limited to the amount of money or other property that they contributed or may have to contribute.

**Listed option:** Any option (other than a right to acquire stock from the issuer) that is traded on (or subject to the rules of) a qualified board or exchange.

**Marked-to-market rule:** The treatment of each section 1256 contract (defined later) held by a taxpayer at the close of the year as if it were sold for its fair market value on the last business day of the year.

**Market discount:** The stated redemption price of a bond at maturity minus your basis in the bond immediately after you acquire it. Market discount arises when the value of a debt obligation decreases after its issue date.

**Market discount bond:** Any bond having market discount except:

- Short-term obligations with fixed maturity dates of up to 1 year from the date of issue,
- Tax-exempt obligations that you bought before May 1, 1993,
- U.S. savings bonds, and
- Certain installment obligations.

**Mutual fund:** A mutual fund is a regulated investment company generally created by “pooling” funds of investors to allow them to take advantage of diversity of investments and professional management.

**Nominee:** A person who receives, in their name, income that actually belongs to someone else.

**Noncovered security:** Noncovered securities are securities that are not subject to added reporting by your broker on any Form 1099-B

you may receive. See the Instructions for Form 1099-B for more details.

**Nonequity option:** Any listed option that is not an equity option, such as debt options, commodity futures options, currency options, and broad-based stock index options.

**Options dealer:** Any person registered with an appropriate national securities exchange as a market maker or specialist in listed options.

**Original issue discount (OID):** The amount by which the stated redemption price at maturity of a debt instrument is more than its issue price.

**Passive activity:** An activity involving the conduct of a trade or business in which you do not materially participate and any rental activity. However, the rental of real estate is not a passive activity if both of the following are true:

- More than one-half of the personal services you perform during the year in all trades or businesses are performed in real property trades or businesses in which you materially participate.
- You perform more than 750 hours of services during the year in real property trades or businesses in which you materially participate.

**Portfolio income:** Gross income from interest, dividends, annuities, or royalties that is not derived in the ordinary course of a trade or business. It includes gains from the sale or trade of property (other than an interest in a passive activity) producing portfolio income or held for investment.

**Premium:** The amount by which your cost or other basis in a bond right after you get it is more than the total of all amounts payable on the bond after you get it (other than payments of qualified stated interest).

**Private activity bond:** A bond that is part of a state or local government bond issue of which:

1. More than 10% of the proceeds are to be used for a private business use, and
2. More than 10% of the payment of the principal or interest is:
  - a. Secured by an interest in property to be used for a private business use (or payments for the property), or
  - b. Derived from payments for property (or borrowed money) used for a private business use.

**Put:** An option that entitles the purchaser to sell, at any time before a specified future date, property such as a stated number of shares of stock at a specified price.



**Real estate mortgage investment conduit (REMIC):** An entity that is formed for the purpose of holding a fixed pool of mortgages secured by in-terests in real property, with multiple classes of interests held by investors. These interests may be either regular or residual.

**Regulated futures contract:** A sec-tion 1256 contract that:

- Provides that amounts that must be deposited to, or may be withdrawn from, your margin account depend on daily market conditions (a sys-tem of marking to market); and
- Is traded on, or subject to the rules of, a qualified board of exchange, such as a domestic board of trade designated as a contract market by the Commodity Futures Trading Commission or any board of trade or exchange approved by the Sec-retary of the Treasury.

**Restricted stock:** Stock you get for services you perform that is nontrans-ferable and is subject to a substantial risk of forfeiture.

**Section 1256 contract:** Any:

- Regulated futures contract,
- Foreign currency contract as de-fined in chapter 4 under *Foreign currency contract*,
- Nonequity option,
- Dealer equity option, or
- Dealer securities futures contract.

A section 1256 contract does not in-clude certain swaps as listed in *Excep-tions* under *Section 1256 Contracts Marked to Market* in chapter 4.

**Securities futures contract:** A con-tract of sale for future delivery of a sin-gle security or of a narrow-based se-curity index.

**Short sale:** The sale of property that you generally do not own. You borrow the property to deliver to a buyer and, at a later date, you buy substantially identical property and deliver it to the lender.

**Straddle:** Generally, a set of offsetting positions on personal property. A straddle may consist of a purchased option to buy and a purchased option to sell on the same number of shares of the security, with the same exercise price and period.

**Stripped preferred stock:** Stock that meets the following tests:

1. There has been a separation in ownership between the stock and any dividend on the stock that has not become payable.
2. The stock:
  - a. Is limited and preferred as to dividends,

- b. Does not participate in corporate growth to any significant extent, and
- c. Has a fixed redemption price.

**Term loan:** Any loan that is not a demand loan.

**Wash sale:** A sale of stock or securities at a loss within 30 days before or after you buy or acquire in a fully taxable trade, or acquire a contract or option to buy, substantially identical stock or securities.