

**SCHEDULE D  
(Form 1065)**

**Capital Gains and Losses**

OMB No. 1545-0099

Department of the Treasury  
Internal Revenue Service

▶ Attach to Form 1065.

**1998**

Name of partnership	Employer identification number
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**Part I Short-Term Capital Gains and Losses—Assets Held 1 Year or Less**

(a) Description of property (e.g., 100 shares of "Z" Co.)	(b) Date acquired (month, day, year)	(c) Date sold (month, day, year)	(d) Sales price (see instructions)	(e) Cost or other basis (see instructions)	(f) Gain or (loss) ((d) minus (e))	
1						
2 Short-term capital gain from installment sales from Form 6252, line 26 or 37 . . . . .					2	
3 Short-term capital gain (loss) from like-kind exchanges from Form 8824 . . . . .					3	
4 Partnership's share of net short-term capital gain (loss), including specially allocated short-term capital gains (losses), from other partnerships, estates, and trusts . . . . .					4	
5 <b>Net short-term capital gain or (loss).</b> Combine lines 1 through 4 in column (f). Enter here and on Form 1065, Schedule K, line 4d or 7 . . . . .					5	

**Part II Long-Term Capital Gains and Losses—Assets Held More Than 1 Year**

(a) Description of property (e.g., 100 shares of "Z" Co.)	(b) Date acquired (month, day, year)	(c) Date sold (month, day, year)	(d) Sales price (see instructions)	(e) Cost or other basis (see instructions)	(f) Gain or (loss) ((d) minus (e))	(g) 28% rate gain or (loss) *(see instr. below)
6						
7 Long-term capital gain from installment sales from Form 6252, line 26 or 37 . . . . .					7	
8 Long-term capital gain (loss) from like-kind exchanges from Form 8824. . . . .					8	
9 Partnership's share of net long-term capital gain (loss), including specially allocated long-term capital gains (losses), from other partnerships, estates, and trusts . . . . .					9	
10 Capital gain distributions . . . . .					10	
11 Combine lines 6 through 10 in column (g). Enter here and on Form 1065, Schedule K, line 4e(1) or 7 . . . . .					11	
12 <b>Net long-term capital gain or (loss).</b> Combine lines 6 through 10 in column (f). Enter here and on Form 1065, Schedule K, line 4e(2) or 7 . . . . .					12	

\*28% rate gain or (loss) includes all "collectibles gains and losses" as defined in the instructions.

## General Instructions

Section references are to the Internal Revenue Code.

### Changes To Note

- For sales, exchanges, and conversions after 1997, property held more than 1 year (instead of more than 18 months) generally is eligible for the 10%, 20%, and 25% maximum capital gains rates at the partner level (for individuals, estates, and trusts). This rule also applies to installment payments received after 1997. Therefore, the partnership should include in column (g) of Schedule D **only** collectibles gains and losses and certain pre-1998 gains from fiscal year pass-through entities.

- The partnership may be able to postpone gain on the sale of qualified small business stock. For details, see **Rollover of gain from qualified stock** on page 3.

### Purpose of Schedule

Use Schedule D (Form 1065) to report sales or exchanges of capital assets, capital gain distributions, and nonbusiness bad debts. Do not report on Schedule D capital gains (losses) specially allocated to any partners.

Enter capital gains (losses) specially allocated to the partnership as a partner in other partnerships and from estates and trusts on Schedule D, line 4 or 9, whichever applies. Enter capital gains (losses) of the partnership that are specially allocated to partners directly on line 4d, 4e(1), 4e(2), or 7 of Schedules K and K-1, whichever applies. See **How Income Is Shared Among Partners** in the Instructions for Form 1065 for more information.

To report sales or exchanges of property other than capital assets, including the sale or exchange of property used in a trade or business and involuntary conversions (other than casualties and thefts), see **Form 4797**, Sales of Business Property, and related instructions. If property is involuntarily converted because of a casualty or theft, use **Form 4684**, Casualties and Thefts.

Gains and losses from section 1256 contracts and straddles are reported on **Form 6781**, Gains and Losses From Section 1256 Contracts and Straddles. If there are limited partners, see section 1256(e)(4) for the limitation on losses from hedging transactions.

An exchange of business or investment property for property of a like kind is reported on **Form 8824**, Like-Kind Exchanges.

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

## What Are Capital Assets?

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

- Assets that can be inventoried or property held mainly for sale to customers.
- Depreciable or real property used in the trade or business.
- Certain copyrights; literary, musical, or artistic compositions; letters or memoranda; or similar property.
- Accounts or notes receivable acquired in the ordinary course of trade or business for services rendered or from the sale of property described in 1 above.
- U.S. Government publications, including the Congressional Record, that the partnership received from the government, other than by purchase at the normal sales price, or that the partnership got from another taxpayer who had received it in a similar way, if the partnership's basis is determined by reference to the previous owner.

## Items for Special Treatment

- Bonds and other debt instruments. See **Pub. 550**, Investment Income and Expenses.
- Certain real estate subdivided for sale that may be considered a capital asset. See section 1237.
- Gain on the sale of depreciable property to a more than 50%-owned entity, or to a trust in which the partnership is a beneficiary, is treated as ordinary gain.
- Liquidating distributions from a corporation. See **Pub. 550** for details.
- Gain on the sale or exchange of stock in certain foreign corporations. See section 1248.
- Gain or loss on options to buy or sell, including closing transactions. See **Pub. 550** for details.
- Gain or loss from a short sale of property. See **Pub. 550** for details.
- Transfer of property to a political organization if the fair market value of the property exceeds the partnership's adjusted basis in such property. See section 84.
- Any loss on the disposition of converted wetland or highly erodible cropland that is first used for farming after March 1, 1986, is reported as a long-term capital loss on Schedule D, but any gain on such a disposition is reported as ordinary income on Form 4797. See section 1257 for details.
- Transfer of partnership assets and liabilities to a newly formed corporation in exchange for all of its stock. See Rev. Rul. 84-111, 1984-2 C.B. 88.
- Disposition of foreign investment in a U.S. real property interest. See section 897.
- Any loss from a sale or exchange of property between the partnership and certain related persons is not allowed, except for distributions in complete liquidation of a corporation. See sections 267 and 707(b) for details.
- Any loss from securities that are capital assets that become worthless during the year is treated as a loss from the sale or exchange of a capital asset on the last day of the tax year.
- Gain from the sale or exchange of stock in a collapsible corporation is not a capital gain. See section 341.
- Nonrecognition of gain on sale of stock to an employee stock ownership plan (ESOP) or an eligible cooperative. See section 1042 and Temporary Regulations section 1.1042-1T for rules under which the partnership may elect not to recognize gain from the sale of certain stock to an ESOP or an eligible cooperative.
- A nonbusiness bad debt must be treated as a short-term capital loss and can be deducted only in the year the debt becomes totally worthless. For each bad debt, enter the name of the debtor and "schedule attached" in column (a) of line 1 and the amount of the bad debt as a loss in column (f). Also attach a statement of facts to support each bad debt deduction.
- Any loss from a wash sale of stock or securities (including contracts or options to acquire or sell stock or securities) cannot be deducted unless the partnership is a dealer in stock or securities and the loss was sustained in a transaction made in the ordinary course of the partnership's trade or business. A wash sale occurs if the partnership acquires (by purchase or exchange), or has a contract or option to acquire, substantially identical stock or securities within 30 days before or after the date of the sale or exchange. See section 1091 for more information.
- Gains from the sale of property (other than publicly traded stock or securities) for which any payment is to be received in a tax year after the year of sale must be reported using the installment method on **Form 6252**, Installment Sale Income, unless the partnership elects to report the entire gain in the year of sale. The partnership should also use Form 6252 if it received a payment this year from a sale made in an earlier year on the installment method.

If the partnership wants to elect out of the installment method for installment gain that **is not** specially allocated among the partners, it must report the full amount of the gain on a timely filed return (including extensions).

If the partnership wants to elect out of the installment method for installment gain that **is** specially allocated among the partners, it must do the following on a timely filed return (including extensions):

1. For a **short-term capital gain**, report the full amount of the gain on Schedule K, line 4d or 7.

For a **long-term capital gain**, report the full amount of the gain on Schedule K, line 4e(2) or 7. Report the 28% rate gain (defined below) on line 4e(1).

2. Enter each partner's share of the full amount of the gain on Schedule K-1, line 4d, 4e(2), or 7, whichever applies. Report the 28% rate gain, if any, on line 4e(1).

#### **Constructive sales treatment for certain appreciated positions.**

Generally, the partnership must recognize gain (but not loss) on the date it enters into a constructive sale of any appreciated position in stock, a partnership interest, or certain debt instruments as if the position were disposed of at fair market value on that date.

The partnership is treated as making a constructive sale of an appreciated position when it (or a related person, in some cases) does **one** of the following:

- Enters into a short sale of the same or substantially identical property (i.e., a "short sale against the box").
- Enters into an offsetting notional principal contract relating to the same or substantially identical property.
- Enters into a futures or forward contract to deliver the same or substantially identical property.
- Acquires the same or substantially identical property (if the appreciated position is a short sale, offsetting notional principal contract, or a futures or forward contract).

**Exception.** Generally, constructive sales treatment **does not** apply if:

- The partnership closed the transaction before the end of the 30th day after the end of the year in which it was entered into,
- The partnership held the appreciated position to which the transaction relates throughout the 60-day period starting on the date the transaction was closed, **and**
- At no time during that 60-day period was the partnership's risk of loss reduced by holding certain other positions.

For details and other exceptions to these rules, see Pub. 550.

#### **Rollover of gain from qualified stock.**

If the partnership sold qualified small business stock (defined below) it held for more than 6 months, it may postpone gain if it purchased other qualified small business stock during the 60-day period that began on the date of the sale. The partnership must recognize gain to the extent the sale proceeds exceed the cost of the replacement stock. Reduce the basis of the replacement stock by any postponed gain.

If the partnership chooses to postpone gain, report the entire gain realized on the sale on line 1 or 6. Directly below the line on which the partnership reported the gain, enter in column (a) "Section 1045 Rollover" and enter as a (loss) in column (f) the amount of the postponed gain.

**Caution:** *The partnership also must separately state the amount of the gain rolled over on qualified stock under section 1045 on Form 1065, Schedule K, line 7, because each partner must determine if he or she qualifies for the rollover at the partner level. Also, the partnership must separately state on that line (and not on Schedule D) any gain that would qualify for the section 1045 rollover at the partner level instead of the partnership level (because a partner was entitled to purchase replacement stock) and any gain on qualified stock that could qualify for the 50% exclusion under section 1202.*

To be **qualified small business stock**, the stock must meet **all** of the following tests:

- It must be stock in a C corporation (i.e., not S corporation stock).
- It must have been originally issued after August 10, 1993.
- As of the date the stock was issued, the corporation was a qualified small business. A qualified small business is a domestic C corporation with total gross assets of \$50 million or less **(a)** at all times after August 9, 1993, and before the stock was issued, and **(b)** immediately after the stock was issued. Gross assets include those of any predecessor of the corporation. All corporations that are members of the same parent-subsidiary controlled group are treated as one corporation.
- The partnership must have acquired the stock at its original issue (either directly or through an underwriter), either in exchange for money or other property or as pay for services (other than as an underwriter) to the corporation. In certain cases, the partnership may meet the test if it acquired the stock from another person who met this test (such

as by gift or at death) or through a conversion or exchange of qualified business stock by the holder.

• During substantially all the time the partnership held the stock:

1. The corporation was a C corporation,
2. At least 80% of the value of the corporation's assets were used in the active conduct of one or more qualified businesses (defined below), and
3. The corporation **was not** a foreign corporation, DISC, former DISC, corporation that has made (or that has a subsidiary that has made) a section 936 election, regulated investment company, real estate investment trust, REMIC, FASIT, or cooperative.

**Note:** *A specialized small business investment company (SSBIC) is treated as having met tests 2 and 3 above.*

A **qualified business** is any business **other than** the following:

- One involving services performed in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, athletics, financial services, or brokerage services.
- One whose principal asset is the reputation or skill of one or more employees.
- Any banking, insurance, financing, leasing, investing, or similar business.
- Any farming business (including the raising or harvesting of trees).
- Any business involving the production of products for which percentage depletion can be claimed.
- Any business of operating a hotel, motel, restaurant, or similar business.

## **Specific Instructions**

### **Columns (b) and (c)—Date Acquired and Date Sold**

Use the trade dates for date acquired and date sold for stocks and bonds traded on an exchange or over-the-counter market.

### **Column (d)—Sales Price**

Enter in this column either the gross sales price or the net sales price from the sale. On sales of stocks and bonds, report the gross amount as reported to the partnership by the partnership's broker on **Form 1099-B**, Proceeds From Broker and Barter Exchange Transactions, or similar statement. However, if the broker advised the partnership that gross proceeds (gross sales price) less commissions and option premiums were reported to the IRS, enter that net amount in column (d).

## Column (e)—Cost or Other Basis

In general, the cost or other basis is the cost of the property plus purchase commissions and improvements and minus depreciation, amortization, and depletion. If the partnership got the property in a tax-free exchange, involuntary conversion, or wash sale of stock, it may not be able to use the actual cash cost as the basis. If the partnership does not use cash cost, attach an explanation of the basis.

When selling stock, adjust the basis by subtracting all the stock-related nontaxable distributions received before the sale. This includes nontaxable distributions from utility company stock and mutual funds. Also adjust the basis for any stock splits or stock dividends.

If a charitable contribution deduction is passed through to a partner because of a sale of property to a charitable organization, the adjusted basis for determining gain from the sale is an amount that has the same ratio to the adjusted basis as the amount realized has to the fair market value.

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

If the gross sales price is reported in column (d), increase the cost or other basis by any expense of sale, such as broker's fees, commissions, or option premiums, before making an entry in column (e).

For more information, see **Pub. 551**, Basis of Assets.

## Column (f)—Gain or (Loss)

Make a separate entry in this column for each transaction reported on lines 1 and 6 and any other line(s) that applies to the partnership. For lines 1 and 6, subtract the amount in column (e) from the amount in column (d). Enter negative amounts in parentheses.

## Column (g)—28% Rate Gain or (Loss)

Enter in column (g) **only** the amount, if any, from Part II, column (f), that is from collectibles gains and losses. A **collectibles gain or loss** is any long-term gain or loss from the sale or exchange of a collectible that is a capital asset.

**Collectibles** include works of art, rugs, antiques, metals (such as gold, silver, and platinum bullion), gems, stamps, coins, alcoholic beverages, and certain other tangible property.

Also include gain from the sale of an interest in a partnership or trust attributable to unrealized appreciation of collectibles.

## Lines 4 and 9—Capital Gains and Losses From Other Partnerships, Estates, and Trusts

See the Schedule K-1 or other information supplied to you by the other partnership, estate, or trust.

## Line 10—Capital Gain Distributions

On line 10, column (f), report as capital gain distributions **(a)** capital gain dividends and **(b)** the partnership's share of undistributed capital gains from a regulated investment company or real estate investment trust (REIT). On line 10, column (g), report the 28% rate gain portion of these amounts. Report the partnership's share of taxes paid on undistributed capital gains by a regulated investment company or REIT on Schedule K, line 24, and Schedule K-1, line 25.

