Reporting Capital Gains
In order to educate taxpayers about their filing obligations, this fact sheet, the twelfth in a series, provides information with regard to capital gains reporting. Incorrect reporting of capital gains accounts for part of an estimated $345 billion per year in unpaid taxes, according to Internal Revenue Service estimates.

Almost everything you own and use for personal purposes, pleasure, business or investment is a capital asset, including:

- Your home
- Household furnishings
- Stocks or bonds
- Coin or stamp collections
- Gems and jewelry
- Gold, silver or any other metal, and
- Business property

Understanding Basis
The difference between the amount for which you sell the capital asset and your basis, which is usually what you paid for it, is a capital gain or a capital loss. You have a capital gain if you sell the asset for more than your basis. You have a capital loss if you sell the asset for less than your basis.

Your basis is generally your cost plus improvements. You must keep accurate records that show your basis. Your records should show the purchase price, including commissions; increases to basis, such as the cost of improvements; and decreases to basis, such as depreciation, non-dividend distributions on stock, and stock splits.

While all capital gains are taxable and must be reported on your tax return, only capital losses on investment or business property are deductible. Losses on sales of personal property are not deductible. More information about increases and decreases to basis can be found in Publication 551, Basis of Assets.

Schedule D
Capital gains and deductible capital losses are reported on Form 1040, Schedule D, Capital Gains and Losses, and then transferred to line 13 of Form 1040, U.S. Individual Income Tax Return. Capital gains and losses are classified as long-term or short term. If you hold the asset for more than one year, your capital gain or loss is long-term. If you hold the asset one year or less, your capital gain or loss is short-term. To figure the holding period, begin counting on the day after you received the property and include the day you disposed of the property.

You may have to make estimated tax payments if you have a taxable capital gain. Refer to Publication 505, Tax Withholding and Estimated Tax, for additional information.

Other Rules
Home — If you sell your residence, you may be able to exclude from income any gain up to a limit of $250,000 ($500,000 on a joint return in most cases). To exclude the gain, you must have owned and lived in the property as your main home for at least 2 years during the 5-year period ending on the date of sale. Generally, you cannot exclude gain on the sale of your home if, during the 2-year period ending on the date of the sale, you sold another home at a gain and excluded all or part of that gain. If you cannot exclude gain, you must include it in income. To determine the maximum dollar limit you can exclude and for additional information, refer to Publication 523, Selling Your Home. You cannot deduct a loss on the sale of your home.

Property outside U.S. - U.S. citizens who sell property located outside the United States must also report gains from these sales, unless the property is exempt by U.S. law. Reporting is required whether you reside inside or outside the United States and whether or not you receive a Form 1099 from the payer.

Installment sales - If you sold property (other than publicly traded stocks or securities) at a gain and will receive any payments in a year after the year of sale, you generally must report the sale on the installment method using Form 6252, Installment Sale Income. You can elect out of the installment method by reporting the entire gain in the year of sale.

Investment Transactions - Gains from sales and trades of stocks, bonds, or certain commodities are usually reported to you on Form 1099-B, Proceeds From Broker and Barter Exchange Transactions, or an equivalent statement. Your basis, the sales price, and the resulting capital gain or loss is entered on Form 1040, Schedule D, Capital Gains and Losses.

Gains from the sale of business property are reported on Form 4797, Sales of Business Property and flow to Form 1040, Schedule D. See Publication 544, Sales and Other Dispositions of Assets for additional information on the sale of business property.

Capital gain distributions from mutual funds are reported to you on Form 1099-DIV, Dividends and Distributions. Capital gain distributions are taxed as long-term capital gains regardless of how long you have owned the shares in the mutual funds. If capital gain distributions are automatically reinvested, the reinvested amount is the basis of the additional shares purchased.
Here are ten facts from the IRS about gains and losses and how they can affect your Federal income tax return.

1. Almost everything you own and use for personal purposes, pleasure or investment is a capital asset.

2. When you sell a capital asset, the difference between the amount you sell it for and your basis – which is usually what you paid for it – is a capital gain or a capital loss.

3. You must report all capital gains.

4. You may deduct capital losses only on investment property, not on property held for personal use.

5. Capital gains and losses are classified as long-term or short-term, depending on how long you hold the property before you sell it. If you hold it more than one year, your capital gain or loss is long-term. If you hold it one year or less, your capital gain or loss is short-term.

6. If you have long-term gains in excess of your long-term losses, you have a net capital gain to the extent your net long-term capital gain is more than your net short-term capital loss, if any.

7. The tax rates that apply to net capital gain are generally lower than the tax rates that apply to other income. For 2010, the maximum capital gains rate for most people is 15%. For lower-income individuals, the rate may be 0% on some or all of the net capital gain. Special types of net capital gain can be taxed at 25% or 28%.

8. If your capital losses exceed your capital gains, the excess can be deducted on your tax return and used to reduce other income, such as wages, up to an annual limit of $3,000, or $1,500 if you are married filing separately.

9. If your total net capital loss 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 incurred it in that next year.

10. Capital gains and losses are reported on Schedule D, Capital Gains and Losses, and then transferred to line 13 of Form 1040.