



## Dbriefs U

# Supplemental Material

## Capital Gains and Losses — Fundamental to Individual Income Tax Planning

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### About the Supplemental Material

Each Dbriefs U webcast is accompanied by teaching material including discussion or homework questions, a learning activity, and related resources. Visit the Dbriefs U Faculty Resources Web site to download this material. For access to the site and more information, contact [dbriefsu@deloitte.com](mailto:dbriefsu@deloitte.com).

**To request the solutions for this material, email [dbriefsu@deloitte.com](mailto:dbriefsu@deloitte.com).**

## Discussion/Homework Questions

To request the solutions for this material, email [dbriefsu@deloitte.com](mailto:dbriefsu@deloitte.com).

Discuss future possible tax law changes pertaining to the area of capital gains and losses that will affect taxpayers.

Discuss two methods for identifying stock shares sold in a mutual fund order to determine the basis and holding period.

What are some of the areas in which tax planning can be used to lower a taxpayer's tax burden due to capital gains?

# Activity

To request the solutions for this material, email [dbriefsu@deloitte.com](mailto:dbriefsu@deloitte.com).

## Overview

**Case Study: Capital Gains and Losses**

**Length:** 45 - 60 minutes

**Type:** Individual activity

**Activity:** The student will prepare a 2010 Schedule D form for an individual taxpayer based on a set of facts regarding the taxpayer's investments.

## Activity

### Case Study: Capital Gains and Losses

Prepare a 2010 Schedule D for James Watson based on the following information:

James Watson has a 2010 Form 1099-B from Charles Schwab and a 2010 Form 1099-DIV from Stock Index Mutual Fund A (attached).

In addition, James sold a painting titled "My Perfect Game" on November 30, 2010 for \$30,000. James purchased the painting on May 1, 1960 for \$1,000.

James also sold his 2001 Jeep Cherokee on September 27, 2010 for \$15,000. He purchased the car for \$32,000 on February 2, 2002

**SCHEDULE D**  
**(Form 1040)**

Department of the Treasury  
 Internal Revenue Service (99)

**Capital Gains and Losses**

▶ **Attach to Form 1040 or Form 1040NR.** ▶ See Instructions for Schedule D (Form 1040).  
 ▶ Use Schedule D-1 to list additional transactions for lines 1 and 8.

OMB No. 1545-0074

**2010**  
 Attachment  
 Sequence No. **12**

Name(s) shown on return

Your social security number

**Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less**

(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-7 of the instructions)	(e) Cost or other basis (see page D-7 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)
1					
2 Enter your short-term totals, if any, from Schedule D-1, line 2 . . . . .			2		
3 <b>Total short-term sales price amounts.</b> Add lines 1 and 2 in column (d) . . . . .			3		
4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . .					4
5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .					5
6 Short-term capital loss carryover. Enter the amount, if any, from line 10 of your <b>Capital Loss Carryover Worksheet</b> on page D-7 of the instructions . . . . .					6 ( )
7 <b>Net short-term capital gain or (loss).</b> Combine lines 1 through 6 in column (f) . . . . .					7

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

(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-7 of the instructions)	(e) Cost or other basis (see page D-7 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)
8					
9 Enter your long-term totals, if any, from Schedule D-1, line 9 . . . . .			9		
10 <b>Total long-term sales price amounts.</b> Add lines 8 and 9 in column (d). . . . .			10		
11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . .					11
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .					12
13 Capital gain distributions. See page D-2 of the instructions . . . . .					13
14 Long-term capital loss carryover. Enter the amount, if any, from line 15 of your <b>Capital Loss Carryover Worksheet</b> on page D-7 of the instructions . . . . .					14 ( )
15 <b>Net long-term capital gain or (loss).</b> Combine lines 8 through 14 in column (f). Then go to Part III on the back . . . . .					15

ISA For Paperwork Reduction Act Notice, see your tax return instructions. Schedule D (Form 1040) 2010



**Dbriefs U Supplemental Material**  
**Capital Gains and Losses — Fundamental to Individual Income Tax Planning**

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.  Stock Index Mutual Fund A One Investment Square Money, MA		1a Total ordinary dividends \$ 10000	OMB No. 1545-0110  <b>2010</b>	<b>Dividends and Distributions</b>
		1b Qualified dividends \$ 8910	Form <b>1099-DIV</b>	
		2a Total capital gain distr. \$ 15500	2b Unrecap. Sec. 1250 gain \$	<b>Copy B For Recipient</b>
PAYER'S federal identification number 01-2345678	RECIPIENT'S identification number 123-45-6789	2c Section 1202 gain \$	2d Collectibles (28%) gain \$	
RECIPIENT'S name  James Watson Street address (including apt. no.)  11 Jeffrey Lane City, state, and ZIP code Old Town, PA 12345 Account number (see instructions)		3 Nondividend distributions \$	4 Federal income tax withheld \$	This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
			5 Investment expenses \$	
		6 Foreign tax paid \$	7 Foreign country or U.S. possession	
		8 Cash liquidation distributions \$	9 Noncash liquidation distributions \$	
Form <b>1099-DIV</b>		(keep for your records)	Department of the Treasury - Internal Revenue Service	

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.		1a Total ordinary dividends \$	OMB No. 1545-0110  <b>2010</b>	<b>Dividends and Distributions</b>
		1b Qualified dividends \$	Form <b>1099-DIV</b>	
		2a Total capital gain distr. \$	2b Unrecap. Sec. 1250 gain \$	<b>Copy B For Recipient</b>
PAYER'S federal identification number	RECIPIENT'S identification number	2c Section 1202 gain \$	2d Collectibles (28%) gain \$	
RECIPIENT'S name  Street address (including apt. no.)  City, state, and ZIP code Account number (see instructions)		3 Nondividend distributions \$	4 Federal income tax withheld \$	This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
			5 Investment expenses \$	
		6 Foreign tax paid \$	7 Foreign country or U.S. possession	
		8 Cash liquidation distributions \$	9 Noncash liquidation distributions \$	
Form <b>1099-DIV</b>		(keep for your records)	Department of the Treasury - Internal Revenue Service	

*charles* SCHWAB  
INSTITUTIONAL

**Form 1099**  
with Account Summary  
Retain for your Records

**Tax Year 2010**

Page 2  
Date Prepared: February 7, 2011

**Payer's Name and Address**  
CHARLES SCHWAB & CO., INC.  
211 MAIN STREET  
SAN FRANCISCO, CA 94105

**Recipient's Name and Address**  
James Watson

Account Number: 094567

Taxpayer ID Number: 123-45-6789

**Proceeds From Broker Transactions - 2010** **Form 1099-B**

Department of the Treasury-Internal Revenue Service Copy B for Recipient (OMB No. 1545-0715)

7-Description	1b-Cusip Number	5-No. of Shares Exchanged	6-Classes of Stock Exchanged*	Quantity	**	1a-Sale Date	2-Gross Proceeds (Less Commissions and Option Premiums)	4-Federal Income Tax Withheld
① AMERICAN FD EUROPACIFIC	298706409	4,761.63	S	01/20/10	\$	181,704.00	\$ 0.00	
② AMERICAN FD WASHINGTON	939330403	2,305.75	S	04/21/10		60,064.84	0.00	
③ ARTISAN MID CAP FUND	04314H303	87.53	S	04/21/10		2,479.00	0.00	
④ ARTISAN MIDCAP VALUE FD	04314H709	52.30	S	04/21/10		1,010.00	0.00	
⑤ COHEN & STEERS REALTY	192476109	88.77	S	04/21/10		4,806.00	0.00	
⑥ COLUMBIA CONSERVATIVE	19765P323	7,312.74	S	04/09/10		55,430.64	0.00	
⑦ COLUMBIA MID CAP VALUE	19765J830	286.34	S	04/21/10		3,608.00	0.00	
⑧ DIAMOND HILL LONG SHORT	25264S403	3,689.79	S	04/21/10		59,368.80	0.00	
⑨ HARBOR CAP APPRECIATION	411511819	1,176.09	S	01/20/10		38,529.00	0.00	

Total Gross Proceeds from Broker Transactions (less commissions) \$ 409,000.28  
Total Federal Income Tax Withheld \$ 0.00

Gross Proceeds from each of your security transactions are reported individually to the IRS.  
Gross Proceeds in aggregate are not reported to the IRS and should not be so reported on your tax return.

- ① Purchased 7/10/04 for 195,000
- ② Purchased 6/10/09 for 54,500
- ③ Purchased 1/4/05 for 1,500
- ④ Purchased 2/2/05 for 1,000
- ⑤ Purchased 1/2/10 for 6,650
- ⑥ Purchased 4/30/09 for 47,800
- ⑦ Purchased 8/2/08 for 7,950
- ⑧ Purchased 2/2/02 for 53,000
- ⑨ Purchased 1/21/09 for 60,000

\* CLASSES OF STOCK C = Common P = Preferred O = Other  
\*\* ACTIVITY CODES C = Cash in lieu E = Exchange P = Principal S = Sale T = Tender  
CV = Conversion M = Cash Merger MT = Maturity R = Redemption SS = Short Sale

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the I.R.S. determines that it has not been reported. If you should have any questions regarding information being reported on this form please call us at 1-800-515-2157.

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## Related Resources

To access these materials, visit [www.deloitte.com/us/dbriefsu](http://www.deloitte.com/us/dbriefsu).

The Essential Tax & Wealth Planning Guide for 2011 (Deloitte publication)

Internal Revenue Service Topic 409 – Capital Gains and Losses

Internal Revenue Service, Tax Tips About Capital Gains and Losses, IRS Tax Tip 2008-35

Times Topics: Capital Gains Tax, *The New York Times*

## Webcast Poll Questions

To request the solutions for this material, email [dbriefsu@deloitte.com](mailto:dbriefsu@deloitte.com).

### Question

**Bill owns the following assets. Which one is not a capital asset?**

- Ten shares of Blue Company common stock
- A note Bill received when he loaned a friend \$10,000
- Bill's custom designed yacht in which he plans to reside when he retires
- Accounts receivable of \$25,000 from Bill's accounting practice
- A letter written by Winston Churchill that Bill purchased at an auction

### Question

**During 2010, Christine had the following transactions: LTCG \$3,000; STCG \$2,000; LTCL \$1,000; and STCL \$10,000. After the netting process, Christine has the following result:**

- STCL \$8,000, LTCG \$2,000
- STCL carryover of \$5,000 and LTCG of \$2,000
- STCL carryover of \$2,000 and LTCL carryover of \$1,000
- STCL carryover of \$3,000
- None of the above

### Question

**Lea received capital gain distributions from the Balanced Mutual Fund XYZ. Which of the following choices reflect the correct reporting for the capital gain distribution?**

- Distribution is reported to Lea on the Form 1099-DIV
- Lea reports the distribution on her Schedule D Part II
- Distribution is reported to Lea on the Form 1099B
- Lea reports the distribution on her Schedule B
- Both the first and second answer
- Both the second and third answer

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