



Dbriefs U

Supplemental Material

Individual Income Taxes — Understanding and Reporting Capital Gains and Losses

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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.

To request the solutions for this material, email dbriefsu@deloitte.com.

Discussion/Homework Questions

To request the solutions for this material, email 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.

Overview

Case Study: Capital Gains and Losses

Length: 45 - 60 minutes

Type: Individual activity

Materials:

Learning Objectives:

Activity: The student will prepare a 2008 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 2008 Schedule D for James Watson based on the following information:

James Watson has a 2008 Form 1099-B from Charles Schwab and a 2008 Form 1099-DIV from Stock Index Mutual Fund A (attached).

In addition, James sold a painting titled “My Perfect Game” on November 30, 2008 for \$30,000. James purchased the painting on May 1, 1960 for \$1,000.

James also sold his 2001 Jeep Cherokee on September 27, 2008 for \$15,000. He purchased the car for \$32,000 on February 2, 2002.

SCHEDULE D (Form 1040) <small>Department of the Treasury Internal Revenue Service (99)</small>	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 <div style="font-size: 24pt; font-weight: bold;">2008</div> 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					
<small>(a) Description of property (Example: 100 sh. XYZ Co.)</small>	<small>(b) Date acquired (Mo., day, yr.)</small>	<small>(c) Date sold (Mo., day, yr.)</small>	<small>(d) Sales price (see page D-7 of the instructions)</small>	<small>(e) Cost or other basis (see page D-7 of the instructions)</small>	<small>(f) Gain or (loss) Subtract (e) from (d)</small>
1					
2	Enter your short-term totals, if any, from Schedule D-1, line 2		2		
3	Total short-term sales price amounts. 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 8 of your Capital Loss Carryover Worksheet on page D-7 of the instructions				6 ()
7	Net short-term capital gain or (loss). Combine lines 1 through 6 in column (f)				7
Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year					
<small>(a) Description of property (Example: 100 sh. XYZ Co.)</small>	<small>(b) Date acquired (Mo., day, yr.)</small>	<small>(c) Date sold (Mo., day, yr.)</small>	<small>(d) Sales price (see page D-7 of the instructions)</small>	<small>(e) Cost or other basis (see page D-7 of the instructions)</small>	<small>(f) Gain or (loss) Subtract (e) from (d)</small>
8					
9	Enter your long-term totals, if any, from Schedule D-1, line 9		9		
10	Total long-term sales price amounts. 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 13 of your Capital Loss Carryover Worksheet on page D-7 of the instructions				14 ()
15	Net long-term capital gain or (loss). Combine lines 8 through 14 in column (f). Then go to Part III on the back				15
For Paperwork Reduction Act Notices, see Form 1040 or Form 1040NR instructions.				Schedule D (Form 1040) 2008	

Part III Summary

<p>16 Combine lines 7 and 15 and enter the result.</p> <p>If line 16 is:</p> <ul style="list-style-type: none"> ● A gain, enter the amount from line 16 on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 17 below. ● A loss, skip lines 17 through 20 below. Then go to line 21. Also be sure to complete line 22. ● Zero, skip lines 17 through 21 below and enter -0- on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 22. <p>17 Are lines 15 and 16 both gains?</p> <p><input type="checkbox"/> Yes. Go to line 18.</p> <p><input type="checkbox"/> No. Skip lines 18 through 21, and go to line 22.</p> <p>18 Enter the amount, if any, from line 7 of the 28% Rate Gain Worksheet on page D-8 of the instructions ▶</p> <p>19 Enter the amount, if any, from line 18 of the Unrecaptured Section 1250 Gain Worksheet on page D-9 of the instructions ▶</p> <p>20 Are lines 18 and 19 both zero or blank?</p> <p><input type="checkbox"/> Yes. Complete Form 1040 through line 43, or Form 1040NR through line 40. Then complete the Qualified Dividends and Capital Gain Tax Worksheet on page 38 of the Instructions for Form 1040 (or in the Instructions for Form 1040NR). Do not complete lines 21 and 22 below.</p> <p><input type="checkbox"/> No. Complete Form 1040 through line 43, or Form 1040NR through line 40. Then complete the Schedule D Tax Worksheet on page D-10 of the instructions. Do not complete lines 21 and 22 below.</p> <p>21 If line 16 is a loss, enter here and on Form 1040, line 13, or Form 1040NR, line 14, the smaller of:</p> <ul style="list-style-type: none"> ● The loss on line 16 or ● (\$3,000), or if married filing separately, (\$1,500) } <p>Note. When figuring which amount is smaller, treat both amounts as positive numbers.</p> <p>22 Do you have qualified dividends on Form 1040, line 9b, or Form 1040NR, line 10b?</p> <p><input type="checkbox"/> Yes. Complete Form 1040 through line 43, or Form 1040NR through line 40. Then complete the Qualified Dividends and Capital Gain Tax Worksheet on page 38 of the Instructions for Form 1040 (or in the Instructions for Form 1040NR).</p> <p><input type="checkbox"/> No. Complete the rest of Form 1040 or Form 1040NR.</p>	<p>16</p> <p>18</p> <p>19</p> <p>21</p>	<p>0.00</p> <p>()</p>
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9191 VOID CORRECTED

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 \$ 4500	OMB No. 1545-0110 2008	Dividends and Distributions
		1b Qualified dividends \$ 4125	Form 1099-DIV	
		2a Total capital gain distr. \$ 12500	2b Unrecap. Sec. 1250 gain \$	Copy A For Internal Revenue Service Center File with Form 1096.
PAYER'S federal identification number 01-2345678	RECIPIENT'S identification number 123-45-6789			
RECIPIENT'S name James Watson		2c Section 1202 gain \$	2d Collectibles (28%) gain \$	For Privacy Act and Paperwork Reduction Act Notice, see the 2008 General Instructions for Forms 1099, 1098, 5498, and W-2G.
Street address (including apt. no.) 11 Jeffrey Lane		3 Nondividend distributions \$	4 Federal income tax withheld \$	
City, state, and ZIP code Old Town, PA 12345		5 Investment expenses \$		
Account number (see instructions)	2nd TIN not <input type="checkbox"/>	6 Foreign tax paid \$	7 Foreign country or U.S. possession	
		8 Cash liquidation distributions \$	9 Noncash liquidation distributions \$	

Form **1099-DIV**

Department of the Treasury - Internal Revenue Service

Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page

Schwab
INSTITUTIONAL

Form 1099
with Account Summary
Retain for your Records

Page 2

x Year 2008

Payer's Name and Address

Recipient's Name and Address

CHARLES SCHWAB & CO., INC.
101 MONTGOMERY ST.
SAN FRANCISCO, CA 94104
Federal ID Number: 94-1737782

James Watson

Taxpayer ID Number:
Account Number:

123-45-6789
094567

Proceeds From Broker Transactions - 2007

Form 1099-B

Department of the Treasury-Internal Revenue Service

Copy B for Recipient (OMB No. 1545-0715)

7-Description	1b-Custp Number	5-No. of Shares Exchanged	6-Classes of Stock Exchanged*	Quantity	** Date	1a-Sale (Less Commissions)	2-Gross Proceeds	4-Federal Income Tax Withheld
① ALLTEL CORP DEL	020039103			200.00	S 07/10/08	\$ 13,569.84	\$ 0.00	
ALLTEL CORP DEL	020039103			150.00	S 08/17/08	9,877.79	0.00	
ALLTEL CORP DEL	020039103			550.00	M 11/16/08	39,325.00	0.00	
				Security Subtotal		62,772.63	0.00	
② AMERICAN EXPRESS COMPANY	025816109			200.00	S 01/03/08	12,049.67	0.00	
③ PENN REAL EST INV TR SBI	709102107			300.00	S 12/10/08	10,392.89	0.00	
④ TEXAS INSTRUMENTS INC	882508104			300.00	S 08/02/08	10,423.49	0.00	
⑤ US TREAS NT 3.25% 08XXX	912828AH3			25,000.00	R 08/15/08	25,000.00	0.00	
⑥ US TREAS NT 4.375%05XXX	912828AC4			25,000.00	R 05/15/08	25,000.00	0.00	
Total Gross Proceeds from Broker Transactions (less commissions)							\$ 145,638.68	
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 on 8/6/2002 for \$10,682
- ② Purchased on 1/4/2007 for \$13,646
- ③ Purchased on 4/4/2008 for \$13,436
- ④ Purchased on 5/1/2008 for \$13,650
- ⑤ Purchased on 5/7/2002 for \$25,825
- ⑥ Purchased on 5/7/2002 for \$25,830

* 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 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.

Related Resources

To access these materials, visit www.deloitte.com/us/dbriefsu.

The Essential Tax & Wealth Planning Guide for 2009 (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.

Question

TRIVIA QUESTION: According to IRS statistics, how many corporations filed income tax returns in 2005?

- 175,622
- 954,726
- 1,799,530
- 134,372,678

Question

TRIVIA QUESTION: Of the 1,799,530 corporate income tax returns filed for 2005, how many corporations actually paid tax?

- 10%
- 53%
- 67%
- 100%

Question

In which of the following business scenarios does tax play a role?

- Designing a compensation plan for key executives
- Opening an out-of-state manufacturing plant
- Increasing research and development effort
- Acquiring a competitor business
- Choosing when to make a charitable contribution
- All of the above

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