

## Tax Reporting Tobacco Quota Buyout Income

**Reported to Taxpayers on Forms: 1099-S, Form 1099-G, Form 1099-B,  
1099-OID and Form 1099-MISC Information Returns Issued by  
USDA-FSA and Financial Institutions**

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**The tax reporting of the tobacco quota buyout payments is complicated. Former quota owners receiving tobacco quota buyout payments or lump-sum buyouts are strongly encouraged to seek competent professional tax advice and preparation. Important to this task is to be consistent in determining supporting data such as cost basis of tobacco quota across farms or clients.**

During the latter part of January 2006, informational forms for reporting real estate transactions and producer payments, IRS Form 1099-S and IRS Form 1099-G, hit former tobacco quota owners and producers mailboxes. These forms report the entire amount of the tobacco quota buyout, but only the amount of payment received on the producer payments. Since the quota is treated as an interest in real estate (land), the 1099-S is issued regardless of whether the former quota owner chose to take ten installment payments, or a lump-sum payment with a third party. The purchase of a real estate interest (tobacco quota) by USDA is reported in full the year of the transaction regardless of the manner of payment (installment versus complete payment).

USDA has issued Form 1099-S with unstated interest computations that follow two different Internal Revenue Code Sections. For taxpayers that are to received less than \$250,000 of total buyout payments IRC § 483 is used to calculate the unstated interest. This 1099-S will show in the interest chart found in the center of the 1099-S that 2005 and 2006 do not have any unstated interest. For taxpayers who will receive more than \$250,000 in total payments IRC §1274 is used to calculate the unstated interest. This 1099-S will have unstated interest for 2005 and 2006 reported in the chart. Further, these taxpayers will also receive a 1099-OID for the annual interest (2005 this year) that is to be reported on Schedule B of their tax return.

The examples that follow are based on an actual 1099-S that the author received with permission to use for illustrative purposes. The example is for a total payment of less than \$250,000 and the unstated interest is calculated using IRC §483. For taxpayers that receive more than \$250,000 in total payments the unstated interest is calculated using the Original Interest Discount (OID) method as required under IRC §1274. Therefore, interest is reported for all ten installment payments. The process for tax reporting is exactly the same for both methods of calculating unstated interest relative to the installment sale, lump-sum payment option, or installment sale with amortization recapture; these are the three examples that are illustrated in this discussion.

To further complicate and confuse recipients, for quota owners who chose a lump sum payment in 2005, a second or third 1099 was received from the financial institution that issued the lump sum payment. This 1099 was either a Form 1099-S or Form 1099-B (in some cases 1099-MISC) for a lump sum payment of the quota contracts. A Form 1099-MISC for a lump sum payment of the grower or producer contracts was issued. This additional 1099 could cause many to fear that the tobacco buyout amount is being “double reported” to the Internal Revenue Service.

The question of how to report the amounts, accurately and completely, on a taxpayer's return is now raised by taxpayers and tax practitioners alike. It is relatively simple for the grower contracts, but quite difficult for the quota contracts. Discussion follows suggesting methods to report the values found on the various issued 1099's from USDA and Financial Institutions relative to the tobacco quota buyout. Three common scenarios are illustrated as examples with completed tax forms attached for the quota sales.

## **GROWER PAYMENTS**

- A. The amount of income reported on the Form 1099-G was the amount the producer actually received in 2005. This would be one-tenth of the total contract. There was a Form 1099-G issued for each contract the producer had, so there may be several 1099's. Each year that the producer receives payments during the life of the contract, they will receive a Form 1099-G for the amount of money received that year.
- B. If the tobacco grower was materially participating in the production of the crop during the 2002-2004 years, the amount on the Form 1099-G should be reported on line 6a and 6b of Schedule F. This income will be taxed at ordinary tax rates and will also be subject to self-employment tax.
- C. If the tobacco grower was not materially participating in the production of the crop during the 2002-2004 years, but was merely a share landlord, then that income will be reported on line 3a and 3b of Form 4835. This income will also be taxed at ordinary income tax rates, but will not be subject to self-employment tax.
- D. If the tobacco grower took a lump sum payment of the remaining nine payments during 2005, they should have received a Form 1099-Misc from the financial institution that issued the lump sum payment. This income should also be reported on line 10 of the Schedule F, or line 6 of the Form 4835, depending upon the producer's status as discussed in items A and B.

## **QUOTA BUYOUT PAYMENTS**

The reporting of the quota payments for either burley or flue-cured tobacco follows similar methods. The individual facts and circumstances will be different for each taxpayer. Tax return preparers must be sure to inquire and ascertain all pertinent facts and circumstances for their clients. The three most common circumstances that face taxpayers and their tax preparers are illustrated with completed tax forms below.

- A. The Form 1099-S issued by USDA has the calculation for the imputed interest for those contracts that exceed \$3,000. This calculation is done for all ten years of the contract. This eliminates all the guess work out of calculating the principal and interest each year. Those contracts that are less than \$3,000 are not subject to the imputed interest rules and will not have this table.
- B. Should there be the need to calculate the interest, it would appear that the formula is no interest on the first two payments with each installment value applied to the principal of the contract. Seemingly, the 2007 interest is on 80% of the original principal times 3.86% interest for approximately 1 year and 5 months. The exact time period for the

interest calculation appears to be the number of days from the date of closing on the Form 1099-S until January 20, 2007. Thus the period of time with a closing date of July 28, 2005 would be nearly one year and 5 months. The interest for 2008 through 2014 is interest on the remaining principal balance each year for 12 months at the 3.86% rate (Applicable Federal Rate for mid-term contracts for the month of July, 2005). A Form 1099-INT will be issued each year for this interest income. Remember that the original principal **is not** the amount of gross proceeds. The gross proceeds include the imputed interest. Example 1 below shows the gross proceeds and the imputed interest and principal of the contract.

*This calculation is seemingly incorrect and is not what was taught at the NC State Income Tax Schools. It would seem that the 2006 payment should have the partial year of interest, and then 2007 would be a full year. However, this is the information being provided to the recipients on the Form 1099-S and should probably be used in order to match future Form 1099-INT that are issued. It also is in the taxpayer's favor in that more will be allocated to principal and less to interest.*

- C. The 1099 that is being issued by the financial institutions that did the lump sum payments will either be a Form 1099-S or a Form 1099-B. It should not make any difference which form is received, as both are used to report the sale of a capital asset (i.e. contract).
- D. An argument can be made to report the 1099-S issued by USDA on Schedule D with the full amount in box 2 as the sales price and the full amount as cost basis thus net out gains. This reporting is to facilitate IRS information matching programs. As illustrated below in the examples that follow, the full amount is not reported on Form 6252 and only on Form 4797 in the scenario where the taxpayer received a lump-sum buyout from a third party financial institution. Professional tax practitioners and their clients need to evaluate this initial step based on their preferences.

**Example #1 – Quota payments are received over the installment period (8.5 years) and election is made to report the income under the installment method as payments are received.**

- A. The first items to complete on Form 6252 are the questions on lines 1 through 4, for description of property, which would be “Tobacco Quota”, date acquired from client records, date sold from box 1 of Form 1099-S, and line 3 about related parties. If you are using software, it will also ask if the property was used in a rental or a business, and that should be checked “yes”, so the gain will flow to Form 4797, Part I.
- B. The next step would be to calculate the total principal amount of the contract. This amount is what will be reported on line 5 of Form 6252. This amount is simply the difference between the amount of gross proceeds in box 2 of the Form 1099-S, and the total imputed interest in the table.
- C. Since you will enter the gross proceeds at less than the amount reported on the Form 1099-S, there is some concern that the IRS matching program of 1099's will cause a problem. There are several methods to hopefully remedy this problem, but the most technically correct would be to add a disclosure statement. This statement would include the amount reported on the Form 1099-S, the amount of unstated interest you are deducting from the gross proceeds, and the net amount you are reporting for sale proceeds. An alternative method would be to report an additional sale with the gross proceeds equal to the imputed interest and the same amount for basis, thus showing a zero net gain, but reflecting additional gross proceeds to balance with the Form 1099-S.
- D. It is suggested that you complete a table on the Form 1099-S to show the amount of principal received each year. To the right of the imputed interest column, make two more columns labeled “principal” and “total payment”. Each year the total payment

should be one-tenth of the amount in box 2 for gross proceeds. The principal then is the difference between the annual total payment and the imputed interest for that year.

- E. It is also suggested that you keep a copy of this Form 1099-S and the table, as you will need the amount of principal each year to report on the Form 6252 for subsequent years. You should receive a Form 1099-INT each year (2007 – 2014), but will not receive any more information returns for the principal part.
- F. The next step is to calculate the basis of the quota and enter that amount of line 8 of Form 6252.
- G. If you are using computer software, the next entry will be on line 21, where you will enter the amount of principal received this year. If you are doing the forms manually you will need to do the math to complete lines 13 through 20 first.
- H. The amount of gain is calculated on lines 24 and 26, and this then flows to the Form 4797, Line 4.
- I. From Form 4797 Line 9, the net value of IRC §1231 gains goes to Schedule D Line 11.

**Example #1 – INSTALLMENT SALE REPORTING**

- Box 1 Closing Date – 07/28/2005 (Form 1099-S from USDA)
- Box 2 Gross Proceeds - \$85,449 (Form 1099-S from USDA)
- Date Acquired – June 15, 1994 (from client records)
- Basis of Quota - \$20,000 (from client records)
- No Amortization Taken
- Taxpayer elects to be taxed under the installment method.
- Imputed interest below is taken from an actual Form 1099-S as provided by USDA using IRC §483. The principal portion is calculated from subtracting this from the total payment each year. Note taxpayers receiving more than \$250,000 will have unstated interest reported for years 2005 and 2006; and they will receive a 1099-OID for that interest.
- Completed tax forms below with the client name as “**Example #1 Installment Sale Reporting**”

<i>Year</i>	<i>Imputed Interest</i>	<i>Principal</i>	<i>Total Payment</i>
2005	\$0.00	\$8,544.90	\$8,544.90
2006	\$0.00	\$8,544.90	\$8,544.90
2007	\$3,251.25	\$5,293.65	\$8,544.90
2008	\$1,989.96	\$6,554.94	\$8,544.90
2009	\$1,736.94	\$6,807.96	\$8,544.90
2010	\$1,474.15	\$7,070.75	\$8,544.90
2011	\$1,201.22	\$7,343.68	\$8,544.90
2012	\$917.75	\$7,627.15	\$8,544.90
2013	\$623.35	\$7,921.55	\$8,544.90
2014	\$318.00	\$8,226.90	\$8,544.90
<b>Total</b>	\$11,512.62	\$73,936.38	\$85,449.00

**Installment Sale Income**

Department of the Treasury  
Internal Revenue Service

▶ Attach to your tax return.  
▶ Use a separate form for each sale or other disposition of  
property on the installment method.

Attachment  
Sequence No. **79**

Name(s) shown on return

Identifying number  
SSN or FIN

**Example #1 Installment Sale Reporting**

- 1 Description of property ▶ **Tobacco Quota**
- 2a Date acquired (month, day, year) ▶ **03 / 15 / 1994** b Date sold (month, day, year) ▶ **06 / 30 / 2005**
- 3 Was the property sold to a related party (see instructions) after May 14, 1980? If "No," skip line 4. . . .  Yes  No
- 4 Was the property you sold to a related party a marketable security? If "Yes," complete Part III. If "No," complete Part III for the year of sale and the 2 years after the year of sale . . . .  Yes  No

**Part I Gross Profit and Contract Price.** Complete this part for the year of sale only.

5	Selling price including mortgages and other debts. <b>Do not</b> include interest whether stated or unstated	5	73,936
6	Mortgages, debts, and other liabilities the buyer assumed or took the property subject to (see instructions)	6	
7	Subtract line 6 from line 5	7	73,936
8	Cost or other basis of property sold	8	20,000
9	Depreciation allowed or allowable	9	
10	Adjusted basis. Subtract line 9 from line 8	10	20,000
11	Commissions and other expenses of sale	11	
12	Income recapture from Form 4797, Part III (see instructions)	12	
13	Add lines 10, 11, and 12	13	20,000
14	Subtract line 13 from line 5. If zero or less, <b>do not</b> complete the rest of this form (see instructions)	14	53,936
15	If the property described on line 1 above was your main home, enter the amount of your excluded gain (see instructions). Otherwise, enter -0-	15	
16	<b>Gross profit.</b> Subtract line 15 from line 14	16	53,936
17	Subtract line 13 from line 6. If zero or less, enter -0-	17	0
18	<b>Contract price.</b> Add line 7 and line 17	18	73,936

**Part II Installment Sale Income.** Complete this part for the year of sale **and** any year you receive a payment or have certain debts you must treat as a payment on installment obligations.

19	Gross profit percentage. Divide line 16 by line 18. For years after the year of sale, see instructions	19	.7295
20	If this is the year of sale, enter the amount from line 17. Otherwise, enter -0-	20	-0-
21	Payments received during year (see instructions). <b>Do not</b> include interest, whether stated or unstated	21	8545
22	Add lines 20 and 21	22	8545
23	Payments received in prior years (see instructions). <b>Do not</b> include interest, whether stated or unstated	23	-0-
24	<b>Installment sale income.</b> Multiply line 22 by line 19	24	6,234
25	Enter the part of line 24 that is ordinary income under the recapture rules (see instructions)	25	
26	Subtract line 25 from line 24. Enter here and on Schedule D or Form 4797 (see instructions)	26	6,234

**Part III Related Party Installment Sale Income.** **Do not** complete if you received the final payment this tax year.

- 27 Name, address, and taxpayer identifying number of related party
- 28 Did the related party resell or dispose of the property ("second disposition") during this tax year? . . .  Yes  No
- 29 **If the answer to question 28 is "Yes," complete lines 30 through 37 below unless one of the following conditions is met. Check the box that applies.**
  - a  The second disposition was more than 2 years after the first disposition (other than dispositions of marketable securities). If this box is checked, enter the date of disposition (month, day, year) ▶
  - b  The first disposition was a sale or exchange of stock to the issuing corporation.
  - c  The second disposition was an involuntary conversion and the threat of conversion occurred after the first disposition.
  - d  The second disposition occurred after the death of the original seller or buyer.
  - e  It can be established to the satisfaction of the Internal Revenue Service that tax avoidance was not a principal purpose for either of the dispositions. If this box is checked, attach an explanation (see instructions).
- 30 Selling price of property sold by related party (see instructions)
- 31 Enter contract price from line 18 for year of first sale
- 32 Enter the **smaller** of line 30 or line 31
- 33 Total payments received by the end of your 2005 tax year (see instructions)
- 34 Subtract line 33 from line 32. If zero or less, enter -0-
- 35 Multiply line 34 by the gross profit percentage on line 19 for year of first sale
- 36 Enter the part of line 35 that is ordinary income under the recapture rules (see instructions)
- 37 Subtract line 36 from line 35. Enter here and on Schedule D or Form 4797 (see instructions)

**Sales of Business Property**  
(Also Involuntary Conversions and Recapture Amounts Under Sections 179 and 280F(b)(2))

Department of the Treasury  
Internal Revenue Service (99)

▶ Attach to your tax return. ▶ See separate instructions.

Name(s) shown on return: **Example #1 Installment Sale Reporting**  
Identifying number: **SSN or FIN**

**1** Enter the gross proceeds from sales or exchanges reported to you for 2005 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20 (see instructions). **1**

**Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft—Most Property Held More Than 1 Year** (see instructions)

(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) Gain or (loss) Subtract (f) from the sum of (d) and (e)
<b>2</b>						

<b>3</b> Gain, if any, from Form 4684, line 42 . . . . .	<b>3</b>	
<b>4</b> Section 1231 gain from installment sales from Form 6252, line 26 or 37 . . . . .	<b>4</b>	<b>6,234</b>
<b>5</b> Section 1231 gain or (loss) from like-kind exchanges from Form 8824 . . . . .	<b>5</b>	
<b>6</b> Gain, if any, from line 32, from other than casualty or theft . . . . .	<b>6</b>	
<b>7</b> Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows: . . . . .	<b>7</b>	<b>6,234</b>

**Partnerships (except electing large partnerships) and S corporations.** Report the gain or (loss) following the instructions for Form 1065, Schedule K, line 10, or Form 1120S, Schedule K, line 9. Skip lines 8, 9, 11, and 12 below.  
**Individuals, partners, S corporation shareholders, and all others.** If line 7 is zero or a loss, enter the amount from line 7 on line 11 below and skip lines 8 and 9. If line 7 is a gain and you did not have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain from line 7 as a long-term capital gain on the Schedule D filed with your return and skip lines 8, 9, 11, and 12 below.

<b>8</b> Nonrecaptured net section 1231 losses from prior years (see instructions) . . . . .	<b>8</b>	
<b>9</b> Subtract line 8 from line 7. If zero or less, enter -0-. If line 9 is zero, enter the gain from line 7 on line 12 below. If line 9 is more than zero, enter the amount from line 8 on line 12 below and enter the gain from line 9 as a long-term capital gain on the Schedule D filed with your return (see instructions). . . . .	<b>9</b>	<b>6,234</b>

**Part II Ordinary Gains and Losses** (see instructions)

<b>10</b> Ordinary gains and losses not included on lines 11 through 16 (include property held 1 year or less):		

<b>11</b> Loss, if any, from line 7. . . . .	<b>11</b>	( )
<b>12</b> Gain, if any, from line 7 or amount from line 8, if applicable . . . . .	<b>12</b>	
<b>13</b> Gain, if any, from line 31 . . . . .	<b>13</b>	
<b>14</b> Net gain or (loss) from Form 4684, lines 34 and 41a . . . . .	<b>14</b>	
<b>15</b> Ordinary gain from installment sales from Form 6252, line 25 or 36 . . . . .	<b>15</b>	
<b>16</b> Ordinary gain or (loss) from like-kind exchanges from Form 8824 . . . . .	<b>16</b>	
<b>17</b> Combine lines 10 through 16 . . . . .	<b>17</b>	

**18** For all except individual returns, enter the amount from line 17 on the appropriate line of your return and skip lines a and b below. For individual returns, complete lines a and b below:

<b>a</b> If the loss on line 11 includes a loss from Form 4684, line 38, column (b)(ii), enter that part of the loss here. Enter the part of the loss from income-producing property on Schedule A (Form 1040), line 27, and the part of the loss from property used as an employee on Schedule A (Form 1040), line 22. Identify as from "Form 4797, line 18a." See instructions . . . . .	<b>18a</b>	
<b>b</b> Redetermine the gain or (loss) on line 17 excluding the loss, if any, on line 18a. Enter here and on Form 1040, line 14. . . . .	<b>18b</b>	

**SCHEDULE D  
(Form 1040)**

Department of the Treasury  
Internal Revenue Service (99)

**Capital Gains and Losses**

▶ Attach to Form 1040. ▶ See Instructions for Schedule D (Form 1040).

▶ Use Schedule D-1 to list additional transactions for lines 1 and 8.

OMB No. 1545-0074

**2005**

Attachment  
Sequence No. **12**

Name(s) shown on Form 1040

Your social security number

**Example #1 Installment Sale Reporting**

SSN or FEIN

**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-6 of the instructions)	(e) Cost or other basis (see page D-6 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)
<b>1</b>					
<b>2</b> Enter your short-term totals, if any, from Schedule D-1, line 2 . . . . .					
<b>3</b> Total short-term sales price amounts. Add lines 1 and 2 in column (d) . . . . .					
<b>4</b> Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824					<b>4</b>
<b>5</b> Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .					<b>5</b>
<b>6</b> Short-term capital loss carryover. Enter the amount, if any, from line 8 of your <b>Capital Loss Carryover Worksheet</b> on page D-6 of the instructions . . . . .					<b>6</b> ( )
<b>7</b> Net short-term capital gain or (loss). Combine lines 1 through 6 in column (f) . . . . .					<b>7</b>

**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-6 of the instructions)	(e) Cost or other basis (see page D-6 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)
<b>8</b>					
<b>9</b> Enter your long-term totals, if any, from Schedule D-1, line 9 . . . . .					
<b>10</b> Total long-term sales price amounts. Add lines 8 and 9 in column (d) . . . . .					
<b>11</b> 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 . . . . .					<b>11</b> 6,234
<b>12</b> Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .					<b>12</b>
<b>13</b> Capital gain distributions. See page D-1 of the instructions . . . . .					<b>13</b>
<b>14</b> Long-term capital loss carryover. Enter the amount, if any, from line 13 of your <b>Capital Loss Carryover Worksheet</b> on page D-6 of the instructions . . . . .					<b>14</b> ( )
<b>15</b> Net long-term capital gain or (loss). Combine lines 8 through 14 in column (f). Then go to Part III on the back . . . . .					<b>15</b> 6,234

**Part III Summary**

<p><b>16</b> Combine lines 7 and 15 and enter the result. If line 16 is a loss, skip lines 17 through 20, and go to line 21. If a gain, enter the gain on Form 1040, line 13, and then go to line 17 below . . .</p>	<b>16</b>	6,234	
<p><b>17</b> Are lines 15 and 16 <b>both</b> gains?  <input checked="" type="checkbox"/> <b>Yes.</b> Go to line 18.  <input type="checkbox"/> <b>No.</b> Skip lines 18 through 21, and go to line 22.</p>			
<p><b>18</b> Enter the amount, if any, from line 7 of the <b>28% Rate Gain Worksheet</b> on page D-7 of the instructions. . . . . ▶</p>	<b>18</b>	-0-	
<p><b>19</b> Enter the amount, if any, from line 18 of the <b>Unrecaptured Section 1250 Gain Worksheet</b> on page D-8 of the instructions . . . . . ▶</p>	<b>19</b>	-0-	
<p><b>20</b> Are lines 18 and 19 <b>both</b> zero or blank?  <input type="checkbox"/> <b>Yes.</b> Complete Form 1040 through line 43, and then complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> on page 38 of the Instructions for Form 1040. <b>Do not</b> complete lines 21 and 22 below.  <input type="checkbox"/> <b>No.</b> Complete Form 1040 through line 43, and then complete the <b>Schedule D Tax Worksheet</b> on page D-9 of the instructions. <b>Do not</b> complete lines 21 and 22 below.</p>			
<p><b>21</b> If line 16 is a loss, enter here and on Form 1040, line 13, the <b>smaller</b> of:</p> <ul style="list-style-type: none"> <li>• The loss on line 16 or</li> <li>• (\$3,000), or if married filing separately, (\$1,500) } . . . . .</li> </ul>	<b>21</b>	( )	
<p><b>Note.</b> When figuring which amount is smaller, treat both amounts as positive numbers.</p>			
<p><b>22</b> Do you have qualified dividends on Form 1040, line 9b?  <input type="checkbox"/> <b>Yes.</b> Complete Form 1040 through line 43, and then complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> on page 38 of the Instructions for Form 1040.  <input type="checkbox"/> <b>No.</b> Complete the rest of Form 1040.</p>			

**Example # 2 – Quota Payment #1 received from USDA, and then lump a sum payment is received from a financial institution in 2005. (No amortization was taken in prior years)**

- A. This example involves two reportable transactions in order to complete the income tax return and match the Form 1099's that have been issued.
- B. The first transaction is the sale of the quota to USDA. As we are effectively electing out of the installment method, this sale will be reported directly in Part I of Form 4797. (If amortization had been taken, you would report the sale in Part III as illustrated in Example 3.)
- C. The amount of gross proceeds (Box 2 from 1099-S) is reported since the financial institution "steps into the shoes of the quota owner" and receives the nine remaining payments (and must report the unstated interest on their corporate tax return).
- D. The basis would be entered and the net gain calculated.
- E. The second transaction is the sale of the installment contract to the financial institution. Since this contract is not a trade or business asset, this sale should be reported directly on Schedule D.
- F. The holding period for this transaction will be short-term. The date acquired will be the closing date of the first transaction.
- G. Depending on the financial institution, enter the gross proceeds from either Form 1099-S, Form 1099-B or 1099-MISC.
- H. The basis in this contract is the remaining amount of principal not received on the contract.
- I. In almost all cases, this transaction will result in a loss. To check yourself and reassure you and your client that you have done this correctly, add the amount of money actually received from USDA and the financial institution and subtract your basis. This should equal the net gain of the two sale transactions you have entered.

**Example #2 - Lump-Sum Buyout Reporting**

- Assume the same basic facts as Example #1.
- However, on November 1, 2005, the taxpayer receives a lump sum payment from a financial institution in the amount of \$61,523.28 (80% of remaining 9 payments).
- Completed tax forms are below this example with the name of "**Example #2 Lump-Sum Buyout Reporting**".
- Cross checking the numbers the taxpayer received \$8,544.90 from USDA in August as one-tenth of the total contract. This would be all principal, leaving \$76,904 of principal on the contract, which will be the basis for the subsequent sale of the contract. The taxpayer received \$61,523 from the financial institution, for a total of \$70,068 received; subtracting the \$20,000 basis results in a net gain of \$50,068. To check, the gain of \$65,449 on the Form 4797 reduced by the \$15,381 loss on Schedule D, results in a net capital gain of \$50,068.

Should the lump sum payment be received in 2006, instead of 2005, the first transaction will be on the 2005 return and the second transaction will be on the 2006 return. However, the 2005 reporting should be done on Form 6252 and not on Form 4797. Failure to file a Form 6252 we think constitutes an election out of the installment sale method of taxation. Then in 2006, the reporting of the second transaction would be the same. (There is some question that this transaction qualifies as an installment sale; taxpayers are advised to consult professional assistance)

**Sales of Business Property**  
(Also Involuntary Conversions and Recapture Amounts Under Sections 179 and 280F(b)(2))

Department of the Treasury  
Internal Revenue Service (99)

▶ Attach to your tax return. ▶ See separate instructions.

Name(s) shown on return

Identifying number

**Example #2 Lump-Sum Buyout**

**SSN or FEIN**

**1** Enter the gross proceeds from sales or exchanges reported to you for 2005 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20 (see instructions).

1

**Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft—Most Property Held More Than 1 Year** (see instructions)

(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) Gain or (loss) Subtract (f) from the sum of (d) and (e)
<b>2 Tobacco Quota</b>	<b>6-15-1994</b>	<b>7-28-2005</b>	<b>85,449</b>		<b>20,000</b>	<b>65,449</b>

- 3** Gain, if any, from Form 4684, line 42 . . . . .
- 4** Section 1231 gain from installment sales from Form 6252, line 26 or 37 . . . . .
- 5** Section 1231 gain or (loss) from like-kind exchanges from Form 8824 . . . . .
- 6** Gain, if any, from line 32, from other than casualty or theft . . . . .
- 7** Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows: . . . . .

3	
4	
5	
6	
7	<b>65,449</b>

**Partnerships (except electing large partnerships) and S corporations.** Report the gain or (loss) following the instructions for Form 1065, Schedule K, line 10, or Form 1120S, Schedule K, line 9. Skip lines 8, 9, 11, and 12 below.

**Individuals, partners, S corporation shareholders, and all others.** If line 7 is zero or a loss, enter the amount from line 7 on line 11 below and skip lines 8 and 9. If line 7 is a gain and you did not have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain from line 7 as a long-term capital gain on the Schedule D filed with your return and skip lines 8, 9, 11, and 12 below.

- 8** Nonrecaptured net section 1231 losses from prior years (see instructions) . . . . .
- 9** Subtract line 8 from line 7. If zero or less, enter -0-. If line 9 is zero, enter the gain from line 7 on line 12 below. If line 9 is more than zero, enter the amount from line 8 on line 12 below and enter the gain from line 9 as a long-term capital gain on the Schedule D filed with your return (see instructions).

8	
9	<b>65,449</b>

**Part II Ordinary Gains and Losses** (see instructions)

**10** Ordinary gains and losses not included on lines 11 through 16 (include property held 1 year or less):


- 11** Loss, if any, from line 7 . . . . .
- 12** Gain, if any, from line 7 or amount from line 8, if applicable . . . . .
- 13** Gain, if any, from line 31 . . . . .
- 14** Net gain or (loss) from Form 4684, lines 34 and 41a . . . . .
- 15** Ordinary gain from installment sales from Form 6252, line 25 or 36 . . . . .
- 16** Ordinary gain or (loss) from like-kind exchanges from Form 8824 . . . . .
- 17** Combine lines 10 through 16 . . . . .
- 18** For all except individual returns, enter the amount from line 17 on the appropriate line of your return and skip lines a and b below. For individual returns, complete lines a and b below:
  - a** If the loss on line 11 includes a loss from Form 4684, line 38, column (b)(ii), enter that part of the loss here. Enter the part of the loss from income-producing property on Schedule A (Form 1040), line 27, and the part of the loss from property used as an employee on Schedule A (Form 1040), line 22. Identify as from "Form 4797, line 18a." See instructions . . . . .
  - b** Redetermine the gain or (loss) on line 17 excluding the loss, if any, on line 18a. Enter here and on Form 1040, line 14 . . . . .

11	( )
12	
13	
14	
15	
16	
17	
18a	
18b	

**SCHEDULE D  
(Form 1040)**

Department of the Treasury  
Internal Revenue Service (99)

**Capital Gains and Losses**

▶ Attach to Form 1040. ▶ See Instructions for Schedule D (Form 1040).

▶ Use Schedule D-1 to list additional transactions for lines 1 and 8.

OMB No. 1545-0074

**2005**

Attachment  
Sequence No. **12**

Name(s) shown on Form 1040

Your social security number

**Example #2 Lump-Sum Buyout**

SSN or FEIN

**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-6 of the instructions)	(e) Cost or other basis (see page D-6 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)
<b>1</b> Tobacco Quota Contract	7/28/2005	11/1/2005	61,523	76,904	(15,381)
<b>2</b> Enter your short-term totals, if any, from Schedule D-1, line 2 . . . . .					
<b>3</b> Total short-term sales price amounts. Add lines 1 and 2 in column (d) . . . . .					
<b>4</b> Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824					
<b>5</b> Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .					
<b>6</b> Short-term capital loss carryover. Enter the amount, if any, from line 8 of your <b>Capital Loss Carryover Worksheet</b> on page D-6 of the instructions . . . . .					( )
<b>7</b> Net short-term capital gain or (loss). Combine lines 1 through 6 in column (f) . . . . .					(15,381)

**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-6 of the instructions)	(e) Cost or other basis (see page D-6 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)
<b>8</b>					
<b>9</b> Enter your long-term totals, if any, from Schedule D-1, line 9 . . . . .					
<b>10</b> Total long-term sales price amounts. Add lines 8 and 9 in column (d) . . . . .					
<b>11</b> 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 . . . . .					65,449
<b>12</b> Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .					
<b>13</b> Capital gain distributions. See page D-1 of the instructions . . . . .					
<b>14</b> Long-term capital loss carryover. Enter the amount, if any, from line 13 of your <b>Capital Loss Carryover Worksheet</b> on page D-6 of the instructions . . . . .					( )
<b>15</b> Net long-term capital gain or (loss). Combine lines 8 through 14 in column (f). Then go to Part III on the back . . . . .					65,449

**Part III Summary**

<p><b>16</b> Combine lines 7 and 15 and enter the result. If line 16 is a loss, skip lines 17 through 20, and go to line 21. If a gain, enter the gain on Form 1040, line 13, and then go to line 17 below . . .</p>	<b>16</b>	50,068	
<p><b>17</b> Are lines 15 and 16 <b>both</b> gains?  <input type="checkbox"/> <b>Yes.</b> Go to line 18.  <input type="checkbox"/> <b>No.</b> Skip lines 18 through 21, and go to line 22.</p>			
<p><b>18</b> Enter the amount, if any, from line 7 of the <b>28% Rate Gain Worksheet</b> on page D-7 of the instructions. . . . . ▶</p>	<b>18</b>		
<p><b>19</b> Enter the amount, if any, from line 18 of the <b>Unrecaptured Section 1250 Gain Worksheet</b> on page D-8 of the instructions . . . . . ▶</p>	<b>19</b>		
<p><b>20</b> Are lines 18 and 19 <b>both</b> zero or blank?  <input type="checkbox"/> <b>Yes.</b> Complete Form 1040 through line 43, and then complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> on page 38 of the Instructions for Form 1040. <b>Do not</b> complete lines 21 and 22 below.  <input type="checkbox"/> <b>No.</b> Complete Form 1040 through line 43, and then complete the <b>Schedule D Tax Worksheet</b> on page D-9 of the instructions. <b>Do not</b> complete lines 21 and 22 below.</p>			
<p><b>21</b> If line 16 is a loss, enter here and on Form 1040, line 13, the <b>smaller</b> of:</p> <ul style="list-style-type: none"> <li>• The loss on line 16 or</li> <li>• (\$3,000), or if married filing separately, (\$1,500) } . . . . .</li> </ul> <p><b>Note.</b> When figuring which amount is smaller, treat both amounts as positive numbers.</p>	<b>21</b>	( )	
<p><b>22</b> Do you have qualified dividends on Form 1040, line 9b?  <input type="checkbox"/> <b>Yes.</b> Complete Form 1040 through line 43, and then complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> on page 38 of the Instructions for Form 1040.  <input type="checkbox"/> <b>No.</b> Complete the rest of Form 1040.</p>			

**Example # 3 – Quota payments received over the installment period (8.5 years) and election is made to report the income under the installment method as payments are received. Amortization of \$5,000 was incorrectly taken in prior years.**

- A. In this situation, the sale will first be reported on Part III of Form 4797. While there is no specific section in Part III for recapture of amortization, it is suggested that you use the Sec 1245 recapture section to report the ordinary income recapture. IRS Notice 2005-57 is very specific that any incorrect deductions for amortization, or writing off the cost basis of tobacco in prior years is to be recaptured as ordinary income and fully recaptured and reported in the year of sale.
- B. Most tax software will let you link this sale to a Form 6252, and the capital gain portion will be transferred to the Form 6252, while the ordinary gain is transferred to line 13 of the Form 4797. If preparing the form manually, put a “zero” in line 32 of Form 4797.
- C. The Form 6252 will end up with the exact same numbers for the amount of gain and gross profit percentage as if there had been no amortization. However, because of the ordinary income recapture, you will report extra income in the year of sale by this same amount. In Example #3, the capital gain is again \$6,234, but there is also \$5,000 of ordinary income, which is the amount of amortization taken and is reported on Line 14 of Form 1040.

**Example #3 - Installment Sale with Amortization Recapture”**

- Assume the exact same facts as Example #1, except the \$20,000 basis had amortization in the amount of \$5,000 incorrectly taken before the taxpayer realized the error and stopped amortizing the quota.
- Completed tax forms are immediately below with the client name as “**Example #3 Installment Sale with Amortization Recapture”**

**Sales of Business Property**  
 (Also Involuntary Conversions and Recapture Amounts  
 Under Sections 179 and 280F(b)(2))

Department of the Treasury  
 Internal Revenue Service (99)

▶ Attach to your tax return. ▶ See separate instructions.

Name(s) shown on return

Identifying number  
**SSN or FEIN**

**Example # 3 Installment Sale with Amortization Recapture**

**1** Enter the gross proceeds from sales or exchanges reported to you for 2005 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20 (see instructions). . . . . **1**

**Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft—Most Property Held More Than 1 Year** (see instructions)

(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) Gain or (loss) Subtract (f) from the sum of (d) and (e)
<b>2</b>						

<b>3</b> Gain, if any, from Form 4684, line 42 . . . . .	<b>3</b>	
<b>4</b> Section 1231 gain from installment sales from Form 6252, line 26 or 37 . . . . .	<b>4</b>	<b>6,234</b>
<b>5</b> Section 1231 gain or (loss) from like-kind exchanges from Form 8824 . . . . .	<b>5</b>	
<b>6</b> Gain, if any, from line 32, from other than casualty or theft . . . . .	<b>6</b>	
<b>7</b> Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows: . . . . .	<b>7</b>	
<b>Partnerships (except electing large partnerships) and S corporations.</b> Report the gain or (loss) following the instructions for Form 1065, Schedule K, line 10, or Form 1120S, Schedule K, line 9. Skip lines 8, 9, 11, and 12 below.		
<b>Individuals, partners, S corporation shareholders, and all others.</b> If line 7 is zero or a loss, enter the amount from line 7 on line 11 below and skip lines 8 and 9. If line 7 is a gain and you did not have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain from line 7 as a long-term capital gain on the Schedule D filed with your return and skip lines 8, 9, 11, and 12 below.		
<b>8</b> Nonrecaptured net section 1231 losses from prior years (see instructions) . . . . .	<b>8</b>	
<b>9</b> Subtract line 8 from line 7. If zero or less, enter -0-. If line 9 is zero, enter the gain from line 7 on line 12 below. If line 9 is more than zero, enter the amount from line 8 on line 12 below and enter the gain from line 9 as a long-term capital gain on the Schedule D filed with your return (see instructions). . . . .	<b>9</b>	<b>6,234</b>

**Part II Ordinary Gains and Losses** (see instructions)

**10** Ordinary gains and losses not included on lines 11 through 16 (include property held 1 year or less):

<b>11</b> Loss, if any, from line 7. . . . .	<b>11</b>	( )
<b>12</b> Gain, if any, from line 7 or amount from line 8, if applicable . . . . .	<b>12</b>	
<b>13</b> Gain, if any, from line 31 . . . . .	<b>13</b>	<b>5,000</b>
<b>14</b> Net gain or (loss) from Form 4684, lines 34 and 41a . . . . .	<b>14</b>	
<b>15</b> Ordinary gain from installment sales from Form 6252, line 25 or 36 . . . . .	<b>15</b>	
<b>16</b> Ordinary gain or (loss) from like-kind exchanges from Form 8824 . . . . .	<b>16</b>	
<b>17</b> Combine lines 10 through 16 . . . . .	<b>17</b>	
<b>18</b> For all except individual returns, enter the amount from line 17 on the appropriate line of your return and skip lines a and b below. For individual returns, complete lines a and b below:		
<b>a</b> If the loss on line 11 includes a loss from Form 4684, line 38, column (b)(ii), enter that part of the loss here. Enter the part of the loss from income-producing property on Schedule A (Form 1040), line 27, and the part of the loss from property used as an employee on Schedule A (Form 1040), line 22. Identify as from "Form 4797, line 18a." See instructions . . . . .		
	<b>18a</b>	
<b>b</b> Redetermine the gain or (loss) on line 17 excluding the loss, if any, on line 18a. Enter here and on Form 1040, line 14. . . . .		
	<b>18b</b>	<b>5,000</b>

**Part III Gain From Disposition of Property Under Sections 1245, 1250, 1252, 1254, and 1255**  
(see instructions)

19 (a) Description of section 1245, 1250, 1252, 1254, or 1255 property:	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)
<b>A Tobacco Quota - Amortization Recapture</b>	<b>06/15/1994</b>	<b>07/28/2005</b>
<b>B</b>		
<b>C</b>		
<b>D</b>		

These columns relate to the properties on lines 19A through 19D. ▶		Property A	Property B	Property C	Property D
20	Gross sales price (Note: See line 1 before completing.) . . . . .	20	73,936		
21	Cost or other basis plus expense of sale . . . . .	21	20,000		
22	Depreciation (or depletion) allowed or allowable . . . . .	22	5,000		
23	Adjusted basis. Subtract line 22 from line 21 . . . . .	23	15,000		
24	Total gain. Subtract line 23 from line 20 . . . . .	24	58,936		
<b>25 If section 1245 property:</b>					
a	Depreciation allowed or allowable from line 22 . . . . .	25a	5,000		
b	Enter the smaller of line 24 or 25a . . . . .	25b	5,000		
<b>26 If section 1250 property:</b> If straight line depreciation was used, enter -0- on line 26g, except for a corporation subject to section 291.					
a	Additional depreciation after 1975 (see instructions) . . . . .	26a			
b	Applicable percentage multiplied by the smaller of line 24 or line 26a (see instructions) . . . . .	26b			
c	Subtract line 26a from line 24. If residential rental property or line 24 is not more than line 26a, skip lines 26d and 26e . . . . .	26c			
d	Additional depreciation after 1969 and before 1976 . . . . .	26d			
e	Enter the smaller of line 26c or 26d . . . . .	26e			
f	Section 291 amount (corporations only) . . . . .	26f			
g	Add lines 26b, 26e, and 26f . . . . .	26g			
<b>27 If section 1252 property:</b> Skip this section if you did not dispose of farmland or if this form is being completed for a partnership (other than an electing large partnership).					
a	Soil, water, and land clearing expenses . . . . .	27a			
b	Line 27a multiplied by applicable percentage (see instructions) . . . . .	27b			
c	Enter the smaller of line 24 or 27b . . . . .	27c			
<b>28 If section 1254 property:</b>					
a	Intangible drilling and development costs, expenditures for development of mines and other natural deposits, and mining exploration costs (see instructions) . . . . .	28a			
b	Enter the smaller of line 24 or 28a . . . . .	28b			
<b>29 If section 1255 property:</b>					
a	Applicable percentage of payments excluded from income under section 126 (see instructions) . . . . .	29a			
b	Enter the smaller of line 24 or 29a (see instructions) . . . . .	29b			

**Summary of Part III Gains.** Complete property columns A through D through line 29b before going to line 30.

30	Total gains for all properties. Add property columns A through D, line 24 . . . . .	30	58,936
31	Add property columns A through D, lines 25b, 26g, 27c, 28b, and 29b. Enter here and on line 13 . . . . .	31	5,000
32	Subtract line 31 from line 30. Enter the portion from casualty or theft on Form 4684, line 36. Enter the portion from other than casualty or theft on Form 4797, line 6 . . . . .	32	-0-

**Part IV Recapture Amounts Under Sections 179 and 280F(b)(2) When Business Use Drops to 50% or Less**  
(see instructions)

	(a) Section 179	(b) Section 280F(b)(2)
33	Section 179 expense deduction or depreciation allowable in prior years . . . . .	33
34	Recomputed depreciation (see instructions), . . . . .	34
35	Recapture amount. Subtract line 34 from line 33. See the instructions for where to report . . . . .	35

**Installment Sale Income**

Department of the Treasury  
Internal Revenue Service

▶ Attach to your tax return.  
▶ Use a separate form for each sale or other disposition of  
property on the installment method.

**2005**  
Attachment  
Sequence No. **79**

Name(s) shown on return

Identifying number

SSN or FEIN

**Example #3 Installment Sale with Amortization Recapture**

- 1 Description of property ▶ Tobacco Quota
- 2a Date acquired (month, day, year) ▶ 06 / 15 / 1994 b Date sold (month, day, year) ▶ 07 / 28 / 2005
- 3 Was the property sold to a related party (see instructions) after May 14, 1980? If "No," skip line 4. . . .  Yes  No
- 4 Was the property you sold to a related party a marketable security? If "Yes," complete Part III. If "No," complete Part III for the year of sale and the 2 years after the year of sale . . . .  Yes  No

**Part I Gross Profit and Contract Price.** Complete this part for the year of sale only.

5	Selling price including mortgages and other debts. <b>Do not</b> include interest whether stated or unstated	5	73,936
6	Mortgages, debts, and other liabilities the buyer assumed or took the property subject to (see instructions)	6	-0-
7	Subtract line 6 from line 5	7	73,936
8	Cost or other basis of property sold	8	20,000
9	Depreciation allowed or allowable	9	5,000
10	Adjusted basis. Subtract line 9 from line 8	10	15,000
11	Commissions and other expenses of sale	11	-0-
12	Income recapture from Form 4797, Part III (see instructions)	12	5,000
13	Add lines 10, 11, and 12	13	20,000
14	Subtract line 13 from line 5. If zero or less, <b>do not</b> complete the rest of this form (see instructions)	14	53,936
15	If the property described on line 1 above was your main home, enter the amount of your excluded gain (see instructions). Otherwise, enter -0-	15	-0-
16	<b>Gross profit.</b> Subtract line 15 from line 14	16	53,936
17	Subtract line 13 from line 6. If zero or less, enter -0-	17	-0-
18	<b>Contract price.</b> Add line 7 and line 17	18	53,936

**Part II Installment Sale Income.** Complete this part for the year of sale **and** any year you receive a payment or have certain debts you must treat as a payment on installment obligations.

19	Gross profit percentage. Divide line 16 by line 18. For years after the year of sale, see instructions	19	.7295
20	If this is the year of sale, enter the amount from line 17. Otherwise, enter -0-	20	-0-
21	Payments received during year (see instructions). <b>Do not</b> include interest, whether stated or unstated	21	8,545
22	Add lines 20 and 21	22	8,545
23	Payments received in prior years (see instructions). <b>Do not</b> include interest, whether stated or unstated	23	
24	<b>Installment sale income.</b> Multiply line 22 by line 19	24	6,234
25	Enter the part of line 24 that is ordinary income under the recapture rules (see instructions)	25	
26	Subtract line 25 from line 24. Enter here and on Schedule D or Form 4797 (see instructions)	26	6,234

**Part III Related Party Installment Sale Income.** **Do not** complete if you received the final payment this tax year.

- 27 Name, address, and taxpayer identifying number of related party
- 28 Did the related party resell or dispose of the property ("second disposition") during this tax year? . . .  Yes  No
- 29 **If the answer to question 28 is "Yes," complete lines 30 through 37 below unless one of the following conditions is met. Check the box that applies.**
  - a  The second disposition was more than 2 years after the first disposition (other than dispositions of marketable securities). If this box is checked, enter the date of disposition (month, day, year) ▶      /      /
  - b  The first disposition was a sale or exchange of stock to the issuing corporation.
  - c  The second disposition was an involuntary conversion and the threat of conversion occurred after the first disposition.
  - d  The second disposition occurred after the death of the original seller or buyer.
  - e  It can be established to the satisfaction of the Internal Revenue Service that tax avoidance was not a principal purpose for either of the dispositions. If this box is checked, attach an explanation (see instructions).
- 30 Selling price of property sold by related party (see instructions)
- 31 Enter contract price from line 18 for year of first sale
- 32 Enter the **smaller** of line 30 or line 31
- 33 Total payments received by the end of your 2005 tax year (see instructions)
- 34 Subtract line 33 from line 32. If zero or less, enter -0-
- 35 Multiply line 34 by the gross profit percentage on line 19 for year of first sale
- 36 Enter the part of line 35 that is ordinary income under the recapture rules (see instructions)
- 37 Subtract line 36 from line 35. Enter here and on Schedule D or Form 4797 (see instructions)

**SCHEDULE D  
(Form 1040)**

Department of the Treasury  
Internal Revenue Service (99)

Name(s) shown on Form 1040

**Capital Gains and Losses**

▶ Attach to Form 1040. ▶ See Instructions for Schedule D (Form 1040).

▶ Use Schedule D-1 to list additional transactions for lines 1 and 8.

OMB No. 1545-0074

**2005**

Attachment  
Sequence No. **12**

Your social security number  
SSN or FEIN

**Example #3 Installment Sale with Amortization Recapture**

**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-6 of the instructions)	(e) Cost or other basis (see page D-6 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 8 of your <b>Capital Loss Carryover Worksheet</b> on page D-6 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-6 of the instructions)	(e) Cost or other basis (see page D-6 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 <b>6,234</b>
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-1 of the instructions . . . . .				13
14	Long-term capital loss carryover. Enter the amount, if any, from line 13 of your <b>Capital Loss Carryover Worksheet</b> on page D-6 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 <b>6,234</b>

**Part III Summary**

<p><b>16</b> Combine lines 7 and 15 and enter the result. If line 16 is a loss, skip lines 17 through 20, and go to line 21. If a gain, enter the gain on Form 1040, line 13, and then go to line 17 below . . .</p>	<b>16</b>	6,234	
<p><b>17</b> Are lines 15 and 16 <b>both</b> gains?  <input type="checkbox"/> <b>Yes.</b> Go to line 18.  <input type="checkbox"/> <b>No.</b> Skip lines 18 through 21, and go to line 22.</p>			
<p><b>18</b> Enter the amount, if any, from line 7 of the <b>28% Rate Gain Worksheet</b> on page D-7 of the instructions. . . . . ▶</p>	<b>18</b>		
<p><b>19</b> Enter the amount, if any, from line 18 of the <b>Unrecaptured Section 1250 Gain Worksheet</b> on page D-8 of the instructions . . . . . ▶</p>	<b>19</b>		
<p><b>20</b> Are lines 18 and 19 <b>both</b> zero or blank?  <input type="checkbox"/> <b>Yes.</b> Complete Form 1040 through line 43, and then complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> on page 38 of the Instructions for Form 1040. <b>Do not</b> complete lines 21 and 22 below.  <input type="checkbox"/> <b>No.</b> Complete Form 1040 through line 43, and then complete the <b>Schedule D Tax Worksheet</b> on page D-9 of the instructions. <b>Do not</b> complete lines 21 and 22 below.</p>			
<p><b>21</b> If line 16 is a loss, enter here and on Form 1040, line 13, the <b>smaller</b> of:</p> <ul style="list-style-type: none"> <li>• The loss on line 16 or</li> <li>• (\$3,000), or if married filing separately, (\$1,500) } . . . . .</li> </ul> <p><b>Note.</b> When figuring which amount is smaller, treat both amounts as positive numbers.</p>	<b>21</b> (		)
<p><b>22</b> Do you have qualified dividends on Form 1040, line 9b?  <input type="checkbox"/> <b>Yes.</b> Complete Form 1040 through line 43, and then complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> on page 38 of the Instructions for Form 1040.  <input type="checkbox"/> <b>No.</b> Complete the rest of Form 1040.</p>			

The author wishes to acknowledge assistance from David L. Heisterberg, Extension Farm Management Specialist, University of Kentucky.