

## INSTRUCTIONS

(References are to the Internal Revenue Code)

**GAINS AND LOSSES FROM SALES OR EXCHANGES OF CAPITAL ASSETS AND OTHER PROPERTY.**—Report details in schedule on other side.

**"Capital assets" defined.**—The term "capital assets" means property held by the taxpayer (whether or not connected with his trade or business), but not stock in trade or other property of a kind which would properly be included in his inventory if on hand at the close of the taxable year, or property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business, or property used in the trade or business of a character which is subject to the allowance for depreciation provided in section 23 (1), or an obligation of the United States or any of its possessions, or of a State or Territory, or any political subdivision thereof, or of the District of Columbia, issued on or after March 1, 1941, on a discount basis and payable without interest at a fixed maturity date not exceeding one year from the date of issue, or real property used in the trade or business of the taxpayer.

Section 165 (b) provides that if an employee receives the total distribution that he is entitled to under an employees' trust plan that meets the requirements of section 165 (a) in one taxable year on account of his separation from service, the amount of such distribution to the extent exceeding the amounts contributed by the employee shall be considered a gain from the sale or exchange of a capital asset held for more than 6 months.

A capital gain dividend, as defined in section 362 (relating to tax on regulated investment companies), shall be treated by the shareholder as gains from the sale or exchange of capital assets held for more than 6 months.

For special treatment of gains and losses from involuntary conversion, and from sale or exchange of certain property used in the trade or business, see section 117 (j).

**Description of property.**—State following facts: (a) For real estate, location and description of land and improvements; (b) for bonds or other evidences of indebtedness, name of issuing corporation, particular issue, denomination and amount; and (c) for stocks, name of corporation, class of stock, number of shares, and capital changes affecting basis (including nontaxable distributions).

**Basis.**—In determining GAIN in case of property acquired before March 1, 1913, use the cost or the fair market value as of March 1, 1913, adjusted as provided in section 113 (b), whichever is greater, but in determining LOSS use cost so adjusted. If the property was acquired after February 28, 1913, use cost, except as otherwise provided in section 113.

**Losses on securities becoming worthless.**—If (1) shares of stock become worthless during the year or (2) corporate secu-

rities with interest coupons or in registered form become worthless during the year, and are capital assets, the loss therefrom shall be considered as from the sale or exchange of capital assets as of the last day of such taxable year.

**Nonbusiness debts.**—If a debt, other than a debt evidenced by a corporate security with interest coupons or in registered form and other than a debt the loss from the worthlessness of which is incurred in the trade or business, becomes totally worthless within the taxable year, the loss resulting therefrom shall be considered a loss from the sale or exchange, during the taxable year, of a capital asset held for not more than 6 months. Enter such loss in column 10 of schedule of short-term capital gains and losses on other side.

**Classification of capital gains and losses.**—The phrase "short-term" applies to gains and losses from the sale or exchange of capital assets held for 6 months or less; the phrase "long-term" to capital assets held for more than 6 months.

**LIMITATION ON CAPITAL LOSSES.**—Losses from sales or exchanges of capital assets shall be allowed only to the extent of the gains from such sales or exchanges, plus the net income (computed without regard to capital gains and losses) or \$1,000, whichever is smaller. However, a net capital loss as defined in section 117 (a) (11) for a taxable year beginning in 1942 may be carried over to the taxable year 1943 and treated as a short-term capital loss. The amount of the net short-term capital loss for a taxable year beginning in 1941 may not be included in computing the net capital loss for a taxable year beginning in 1942 which can be carried forward to a taxable year beginning in 1943.

**ALTERNATIVE TAX.**—If the net long-term capital gain exceeds the net short-term capital loss, an alternative tax may be imposed in lieu of the normal tax and surtax imposed on net income. (See Computation of Alternative Tax, on other side.)

**"Wash sales" losses.**—Loss from sale or other disposition of stocks or securities cannot be deducted unless sustained in connection with the taxpayer's trade or business, if, within 30 days before or after the date of sale or other disposition, the taxpayer has acquired (by purchase or by an exchange upon which the entire amount of gain or loss was recognized by law), or has entered into a contract or option to acquire, substantially identical stock or securities.

**Losses in transactions between certain persons.**—No deduction is allowable for losses from sales or exchanges of property directly or indirectly between (a) members of a family, (b) a corporation and an individual owning more than 50 percent of its stock (liquidations excepted), (c) a grantor and fiduciary of any trust, or (d) a fiduciary and a beneficiary of the same trust.