

Tax Reporting of Income Received from the Tobacco Quota Buyout

Listed on Form 1099-S and Form 1099-G issued by USDA-FSA and Form 1099-B and Form 1099-Misc (Lump sum) Information Returns Issued by Financial Institutions

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This article is directed to professional tax return preparers, but may also be of interest to former quota owners and producers. 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. This article discusses the Form 1099's issued and the proper reporting on the tax return. For a full discussion of the tax issues, see the article entitled "Tax Implications of the Tobacco Quota Buyout" by Arnold Oltmans and David Heisterberg, dated August, 2005. Also the excel spreadsheet entitled "Tobacco Quota Conversion Calculator" may be of help in calculating quota basis.

During the latter part of January 2006, informational forms for reporting real estate transactions, IRS Form 1099-S and IRS Form 1099-G, hit former tobacco quota owners and producers mailboxes (in some states, some institutions may have used a Form 1099-Misc). The 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).

To further complicate and confuse recipients, if a lump sum payment was taken 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 for a lump sum payment of the quota contracts, and a Form 1099-Misc for a lump sum payment of the grower or producer contracts. This second 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. This is relatively simple for the grower contracts, but quite difficult for the quota contracts. Below is a suggested method to report the values found on the various issued 1099's and some 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 Sch 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 either line 10 of the Sch F, or line 6 of the Form 4835, depending upon the producer's status as discussed in items A and B.

QUOTA PAYMENTS

- A. Internal Revenue Service Notice 2005-57 released by the IRS on July 18, 2005, stated that part of any installment contract must be treated as interest. This will apply to those quota owners who receive their payments over the 10 years. The only exception to this is for contracts where the total payments do not exceed \$3000. In the absence of a stated rate of interest in the contract, the holder of the contract must use an imputed rate as published by IRS. This rate for most contracts in Kentucky will be 3.86%.
- B. The Form 1099-S issued by USDA for 2005 is for the gross proceeds of the contract. Again there will be a Form 1099-S for each contract. The Form 1099-S has a table that shows the amount of imputed interest for those contracts that exceed \$3,000. This calculation is done for all ten payments 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.
- C. The imputed interest rules state that for any payment received within six months of the contract date, there is no interest calculated. Thus, the 2005 payments will not have any interest calculated since they were all received within the six month period. However, there will be a difference among various contracts for the 2006 payment. Some of the early contracts that have a date of closing before July 20, 2005, will have interest calculated for 2006, since more than six months elapsed from the date of contract closing until the second payment. Contracts with a closing date after July 20 will have no interest calculated for 2006 since less than six months elapsed from the date of contract closing until the second payment. Then all contracts should have interest imputed for payments received in years 2007 through 2014. 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 includes the imputed interest. Example 1 below shows the gross proceeds and the imputed interest and principal of the contract. For a complete discussion with examples of how the imputed interest is calculated, please visit the Kentucky Farm Service Agency website where you will find a link for "Reporting Contract Payments to IRS on Form 1099. The website address is: www.fsa.usda.gov/tobacco/Default.htm
- D. 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 (ie contract).

Situation 1 – Quota payments are received in 10 installments and the 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 that year. You should receive a Form 1099-INT each year, 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. Finally the amount of gain is calculated on lines 24 and 26, and this then flows to the Form 4797.

Example #1 –

- Box 1 Closing Date – 08/31/2005
- Box 2 Gross Proceeds - \$50,225
- Date Acquired – July 1, 1994
- Basis of Quota - \$10,000 (from client records)
- No Amortization Taken
- Taxpayer elects to be taxed under the installment method.
- Imputed interest below is taken from the Form 1099-S as provided by USDA. The principal portion is calculated from subtracting this from the total payment each year.
- Completed tax forms are at the end of this article with the client name as “Example #1”

<i>Year</i>	<i>Imputed Interest</i>	<i>Principal Portion</i>	<i>Total Payment</i>
2005	\$ 0	\$ 5,022.50	\$ 5,022.50
2006	0	5,022.50	5,022.50
2007	1,792.92	3,229.58	5,022.50
2008	1,169.66	3,852.84	5,022.50
2009	1,020.94	4,001.56	5,022.50
2010	866.48	4,156.02	5,022.50
2011	706.05	4,316.45	5,022.50
2012	539.44	4,483.06	5,022.50
2013	366.39	4,656.11	5,022.50
2014	187.00	4,835.50	5,022.50
Total	\$6,648.88	\$43,576.12	\$50,225.00

Situation 2 – Quota payments received in 10 installments and the election is made to report the income under the installment method as payments are received. Amortization 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 #2, the capital gain is again \$3,870, but there is also \$2,000 of ordinary income, which is the amount of amortization taken.

Example #2 –

- Assume the exact same facts as Example #1, except the \$10,000 basis had amortization in the amount of \$2,000 incorrectly taken before the taxpayer realized the error and stopped amortizing the quota.
- Completed tax forms are at the end of this article with the client name as “Example #2”

Situation 3 – 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 situation 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)

- C. The amount of gross proceeds to report would be calculated in the same manner as in Step B of Situation 1. Again you subtract the total imputed interest from the gross proceeds reported in box 2 of the Form 1099-S.
- 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 Sch 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 or Form 1099-B.
- 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 #3 –

- 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 \$36,614.
- Completed tax forms are at the end of this article with the name of “Example #3”.
- Cross checking the numbers the taxpayer received \$5,023 from USDA in August as one –tenth of the total contract. This would be all principal, leaving \$38,553 of principal on the contract, which will be the basis for the subsequent sale of the contract. He received \$36,614 from the financial institution, for a total of \$41,637 received. Subtracting the \$10,000 basis leaves a net gain of \$31,637. The gain of \$33,576 on the Form 4797 reduced by the \$1,939 loss on Sch D, leave a net capital gain of \$31,637.

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.

Sales of Business Property

(Also Involuntary Conversions and Recapture Amounts Under Sections 179 and 280F(b)(2))

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

2005

Attachment Sequence No. 27

Department of the Treasury Internal Revenue Service (99)

Name(s) shown on return

Identifying number

EXAMPLE #1

999-99-9999

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)

Table with 7 columns: (a) Description of property, (b) Date acquired, (c) Date sold, (d) Gross sales price, (e) Depreciation allowed, (f) Cost or other basis, (g) Gain or (loss). Includes a shaded area for line 7.

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
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.

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):

Table with 7 columns for line 10, corresponding to columns (a) through (g) in Part I.

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.
b Redetermine the gain or (loss) on line 17 excluding the loss, if any, on line 18a.

BAA For Paperwork Reduction Act Notice, see separate instructions.

Installment Sale Income

Department of the Treasury Internal Revenue Service

G Attach to your tax return. G 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

EXAMPLE #1

999-99-9999

- 1 Description of property G TOBACCO QUOTA
2a Date acquired (month, day, year) G 07/01/1994 b Date sold (month, day, year) G 08/31/2005
3 Was the property sold to a related party (see instructions) after May 14, 1980? If 'No,' skip line 4.
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.

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

Table with 18 rows and 3 columns. Row 5: Selling price including mortgages and other debts. Do not include interest whether stated or unstated. 5 43,576.
Row 6: Mortgages, debts, and other liabilities the buyer assumed or took the property subject to (see instructions). 6 0.
Row 7: Subtract line 6 from line 5. 7 43,576.
Row 8: Cost or other basis of property sold. 8 10,000.
Row 9: Depreciation allowed or allowable. 9
Row 10: Adjusted basis. Subtract line 9 from line 8. 10 10,000.
Row 11: Commissions and other expenses of sale. 11 0.
Row 12: Income recapture from Form 4797, Part III (see instructions). 12
Row 13: Add lines 10, 11, and 12. 13 10,000.
Row 14: Subtract line 13 from line 5. If zero or less, do not complete the rest of this form (see instructions). 14 33,576.
Row 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
Row 16: Gross profit. Subtract line 15 from line 14. 16 33,576.
Row 17: Subtract line 13 from line 6. If zero or less, enter -0-. 17 0.
Row 18: Contract price. Add line 7 and line 17. 18 43,576.

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.

Table with 6 rows and 3 columns. Row 19: Gross profit percentage. Divide line 16 by line 18. For years after the year of sale, see instructions. 19 0.7705
Row 20: If this is the year of sale, enter the amount from line 17. Otherwise, enter -0-. 20 0.
Row 21: Payments received during year (see instructions). Do not include interest, whether stated or unstated. 21 5,023.
Row 22: Add lines 20 and 21. 22 5,023.
Row 23: Payments received in prior years (see instructions). Do not include interest, whether stated or unstated. 23
Row 24: Installment sale income. Multiply line 22 by line 19. 24 3,870.
Row 25: Enter the part of line 24 that is ordinary income under the recapture rules (see instructions). 25
Row 26: Subtract line 25 from line 24. Enter here and on Schedule D or Form 4797 (see instructions). 26 3,870.

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?
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) G
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). 30
31 Enter contract price from line 18 for year of first sale. 31
32 Enter the smaller of line 30 or line 31. 32
33 Total payments received by the end of your 2005 tax year (see instructions). 33
34 Subtract line 33 from line 32. If zero or less, enter -0-. 34
35 Multiply line 34 by the gross profit percentage on line 19 for year of first sale. 35
36 Enter the part of line 35 that is ordinary income under the recapture rules (see instructions). 36
37 Subtract line 36 from line 35. Enter here and on Schedule D or Form 4797 (see instructions). 37

Preparer Notes
For Electronic Filing Use Only

2005

Name(s)

EXAMPLE #1

Social Security Number

999-99-9999

Form/Line: **Form 6252**

Line 5

Explanation of: **Gross Proceeds Reported**

Form 1099-S Box 2

50225

Less Unstated interest included in gross proceeds

-6649

Net amount reported for sale proceeds

43576

Sales of Business Property
(Also Involuntary Conversions and Recapture Amounts
Under Sections 179 and 280F(b)(2))
G Attach to your tax return. G See separate instructions.

Name(s) shown on return

Identifying number

EXAMPLE #2

999-99-9998

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)

2	(a) Description of property	(b) Date acquired (month, day, year)	(c) Date sold (month, day, year)	(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)

3	Gain, if any, from Form 4684, line 42	3	
4	Section 1231 gain from installment sales from Form 6252, line 26 or 37	4	3,870.
5	Section 1231 gain or (loss) from like-kind exchanges from Form 8824	5	
6	Gain, if any, from line 32, from other than casualty or theft	6	0.
7	Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows 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.	7	3,870.
8	Nonrecaptured net section 1231 losses from prior years (see instructions)	8	
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)	9	

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	11	
12	Gain, if any, from line 7 or amount from line 8, if applicable	12	
13	Gain, if any, from line 31	13	2,000.
14	Net gain or (loss) from Form 4684, lines 34 and 41a	14	
15	Ordinary gain from installment sales from Form 6252, line 25 or 36	15	
16	Ordinary gain or (loss) from like-kind exchanges from Form 8824	16	
17	Combine lines 10 through 16	17	2,000.
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	18a	
		18b	2,000.

BAA For Paperwork Reduction Act Notice, see separate instructions.

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)
A TOBACCO QUOTA	07/01/1994	08/31/2005
B		
C		
D		

These columns relate to the properties on lines 19A through 19D		G	Property A	Property B	Property C	Property D
20	Gross sales price (Note: See line 1 before completing.)	20	43,576.			
21	Cost or other basis plus expense of sale	21	10,000.			
22	Depreciation (or depletion) allowed or allowable	22	2,000.			
23	Adjusted basis. Subtract line 22 from line 21	23	8,000.			
24	Total gain. Subtract line 23 from line 20	24	35,576.			
25 If section 1245 property:						
a	Depreciation allowed or allowable from line 22	25a	2,000.			
b	Enter the smaller of line 24 or 25a	25b	2,000.			
26 If section 1250 property: 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 instrs)	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 & 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				
27 If section 1252 property: 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				
28 If section 1254 property:						
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				
29 If section 1255 property:						
a	Applicable percentage of payments excluded from income under section 126 (see instructions)	29a				
b	Enter the smaller of line 24 or 29a (see instrs)	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	35,576.
31	Add property columns A through D, lines 25b, 26g, 27c, 28b, and 29b. Enter here and on line 13	31	2,000.
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

G Attach to your tax return.
G 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

EXAMPLE #2

999-99-9998

- 1 Description of property G TOBACCO QUOTA
- 2a Date acquired (month, day, year) G 07/01/1994 b Date sold (month, day, year) G 08/31/2005
- 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. Do not include interest whether stated or unstated	5	43,576.
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	43,576.
8	Cost or other basis of property sold	8	10,000.
9	Depreciation allowed or allowable	9	2,000.
10	Adjusted basis. Subtract line 9 from line 8	10	8,000.
11	Commissions and other expenses of sale	11	
12	Income recapture from Form 4797, Part III (see instructions)	12	2,000.
13	Add lines 10, 11, and 12	13	10,000.
14	Subtract line 13 from line 5. If zero or less, do not complete the rest of this form (see instructions)	14	33,576.
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	Gross profit. Subtract line 15 from line 14	16	33,576.
17	Subtract line 13 from line 6. If zero or less, enter -0-	17	0.
18	Contract price. Add line 7 and line 17	18	43,576.

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	0.7705
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). Do not include interest, whether stated or unstated	21	5,023.
22	Add lines 20 and 21	22	5,023.
23	Payments received in prior years (see instructions). Do not include interest, whether stated or unstated	23	
24	Installment sale income. Multiply line 22 by line 19	24	3,870.
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	3,870.

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) _____ G _____
- 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) | 30 | |
| 31 | Enter contract price from line 18 for year of first sale | 31 | |
| 32 | Enter the smaller of line 30 or line 31 | 32 | |
| 33 | Total payments received by the end of your 2005 tax year (see instructions) | 33 | |
| 34 | Subtract line 33 from line 32. If zero or less, enter -0- | 34 | |
| 35 | Multiply line 34 by the gross profit percentage on line 19 for year of first sale | 35 | |
| 36 | Enter the part of line 35 that is ordinary income under the recapture rules (see instructions) | 36 | |
| 37 | Subtract line 36 from line 35. Enter here and on Schedule D or Form 4797 (see instructions) | 37 | |

Preparer Notes
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2005

Name(s)

EXAMPLE #2

Social Security Number

999-99-9998

Form/Line: **Form 6252**

Line 5

Explanation of: **Gross Proceeds Reported**

Form 1099-S Box 2 Gross Proceeds Reported	50225
Less un stated interest included in gross proceeds	-6649
Net sale proceeds reported on line 5	43576

SCHEDULE D
(Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Name(s) shown on Form 1040

Capital Gains and Losses

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

999-99-9997

EXAMPLE #3

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

(a) Description of property (Example: 100 shares XYZ Co)	(b) Date acquired (Mo, day, yr)	(c) Date sold (Mo, day, yr)	(d) Sales price (see instructions)	(e) Cost or other basis (see instructions)	(f) Gain or (loss) Subtract (e) from (d)
1 TOBACCO QUOTA CONTRACT	08/31/05	11/01/05	36,614.	38,553.	-1,939.
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	36,614.		
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 in the instructions				6	
7 Net short-term capital gain or (loss). Combine lines 1 through 6 in column (f)				7	-1,939.

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

(a) Description of property (Example: 100 shares XYZ Co)	(b) Date acquired (Mo, day, yr)	(c) Date sold (Mo, day, yr)	(d) Sales price (see instructions)	(e) Cost or other basis (see 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 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	33,576.
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 instrs				13	
14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your Capital Loss Carryover Worksheet in 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 page 2				15	33,576.

BAA For Paperwork Reduction Act Notice, see Form 1040 instructions.

Schedule D (Form 1040) 2005

Part III Summary

16 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	16	31,637.
17 Are lines 15 and 16 both gains?		
<input checked="" type="checkbox"/> Yes. Go to line 18.		
<input type="checkbox"/> No. Skip lines 18 through 21, and go to line 22.		
18 Enter the amount, if any, from line 7 of the 28% Rate Gain Worksheet in the instructions	G 18	
19 Enter the amount, if any, from line 18 of the Unrecaptured Section 1250 Gain Worksheet in the instructions	G 19	
20 Are lines 18 and 19 both zero or blank?		
<input checked="" type="checkbox"/> Yes. Complete Form 1040 through line 43, and then complete the Qualified Dividends and Capital Gain Tax Worksheet in the Instructions for Form 1040. Do not complete lines 21 and 22 below.		
<input type="checkbox"/> No. Complete Form 1040 through line 43, and then complete the Schedule D Tax Worksheet in the instructions. Do not complete lines 21 and 22 below.		
21 If line 16 is a loss, enter here and on Form 1040, line 13, the smaller of:		
? The loss on line 16 or		
? (\$3,000), or if married filing separately, (\$1,500)	} 21	
Note. When figuring which amount is smaller, treat both amounts as positive numbers.		
22 Do you have qualified dividends on Form 1040, line 9b?		
<input type="checkbox"/> Yes. Complete Form 1040 through line 43, and then complete the Qualified Dividends and Capital Gain Tax Worksheet in the Instructions for Form 1040.		
<input type="checkbox"/> No. Complete the rest of Form 1040.		

Sales of Business Property
(Also Involuntary Conversions and Recapture Amounts
Under Sections 179 and 280F(b)(2))
G Attach to your tax return. G See separate instructions.

Name(s) shown on return

Identifying number

EXAMPLE #3

999-99-9997

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)

2	(a) Description of property	(b) Date acquired (month, day, year)	(c) Date sold (month, day, year)	(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)
	TOBACCO QUOTA	07/01/94	08/31/05	43,576.	0.	10,000.	33,576.

3	Gain, if any, from Form 4684, line 42	3	
4	Section 1231 gain from installment sales from Form 6252, line 26 or 37	4	
5	Section 1231 gain or (loss) from like-kind exchanges from Form 8824	5	
6	Gain, if any, from line 32, from other than casualty or theft	6	
7	Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows 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.	7	33,576.
8	Nonrecaptured net section 1231 losses from prior years (see instructions)	8	
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)	9	

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	11	
12	Gain, if any, from line 7 or amount from line 8, if applicable	12	
13	Gain, if any, from line 31	13	
14	Net gain or (loss) from Form 4684, lines 34 and 41a	14	
15	Ordinary gain from installment sales from Form 6252, line 25 or 36	15	
16	Ordinary gain or (loss) from like-kind exchanges from Form 8824	16	
17	Combine lines 10 through 16	17	
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	18a	
	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	18b	

BAA For Paperwork Reduction Act Notice, see separate instructions.

Preparer Notes
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2005

Name(s)

EXAMPLE #3

Social Security Number

999-99-9997

Form/Line: **Form 4797**

Line 2

Explanation of: **Gross Proceeds Reported**

Form 1099-S Box 2 Gross Proceeds Reported	50225
Less un stated interest included in gross proceeds	-6649
Net sale proceeds reported on line 2	43576