

New Form 8949 replaces Form 1040, Schedule D-1

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Draft Form 1040, Schedule D (Capital Gains and Losses); Draft Form 8949 (Sales and Other Dispositions of Capital Assets); Draft Instructions to Form 1040, Schedule D

Newly released draft instructions to the 2011 Form 1040 Schedule D reveal that IRS has created new Form 8949, Sales and Other Dispositions of Capital Assets (currently still in draft form), to replace Schedule D-1. This and other changes affecting the 2011 Form 1040, Schedule D, are explained below.

New Form 8949. The draft Schedule D instructions direct taxpayers to complete Form 8949 before completing Schedule D. Form 8949 does not have its own instructions. Rather, instructions for completing Form 8949 are included in the instructions to Schedule D. Specifically, the taxpayer uses Form 8949 to report:

- The sale or exchange of a capital asset not reported on another form or schedule,
- Gains from involuntary conversions (other than from casualty or theft) of capital assets not held for business or profit, and
- Nonbusiness bad debts.

The taxpayer uses Schedule D:

- To figure the overall gain or loss from transactions reported on Form 8949, and
- To report capital gain distributions not reported directly on Form 1040, line 13 (or effectively connected capital gain distributions not reported directly on Form 1040NR, line 14.)

Basis on Form 1099-B. The draft Schedule D instructions point out that a taxpayer who sold a covered security in 2011 should be sent a Form 1099-B, Proceeds from Broker and Barter Exchange Transactions, from his broker that shows his basis. This will help in completing Form 8949. Generally, a covered security is a security acquired by the taxpayer after 2010, with certain exceptions explained in the instructions for Form 1099-B.

Adjustments to gain or loss on Form 8949. The draft Schedule D instructions note that, in certain situations, a taxpayer will have to put a code in column (b) of Form 8949 and make an adjustment to his gain or loss in column (g), as detailed in the instructions for Form 8949.

Short sales. Some instructions for reporting short sales have changed.

