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Mutual Fund Distributions

For use in preparing

1997 Returns

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Contents

Important Changes

New maximum tax rates on net capital gain. The maximum tax rate on a net capital gain has been reduced for some sales and exchanges after May 6, 1997. The maximum rate may be 10%, 20%, 25%, or 28%, depending on the situation. See *Using the maximum capital gains rates,* later, for more information.

Capital gains distributions. You must report your capital gain distributions on Schedule D (Form 1040) in all cases. This is so you can benefit from the new maximum tax rates.

Introduction

This publication explains the federal income tax treatment of distributions paid or allocated to an individual shareholder of a mutual fund. A mutual fund is a regulated investment company generally created by “pooling” funds of investors to allow them to take advantage of a diversity of investments and professional management.

This publication provides information on investment expenses and will help you figure your taxable gain or deductible loss when you sell, exchange, or redeem your mutual fund shares. It discusses how to report your mutual fund distributions on Schedule B (Form 1040), *Interest and Dividend Income,* Schedule D (Form 1040), *Capital Gains and Losses,* and page 1 of Form 1040. It also provides a comprehensive filled-in example.

The rules in this publication also apply to money market funds. A **money market fund** is a mutual fund that tries to increase current income available to shareholders by purchasing short-term market investments. Usually, dividends are declared and reinvested daily. When you dispose of your shares, the proceeds generally equal your investment in the fund because the value of the shares generally does not change. Money market funds pay dividends and should not be confused with bank money market accounts that pay interest.

Qualified retirement plans. Individuals may own shares of mutual funds as a part of an **individual retirement arrangement (IRA).** Self-employed persons and partners may own shares of mutual funds as a part of a **simplified employee pension (SEP) plan,** a **savings incentive match (SIMPLE) plan,** or an **H.R 10 (Keogh) plan.** The value of the mutual fund shares and any earnings (distributions) from the fund are included in your retirement plan assets, which stay tax free until distributed to you from the plan in later years. The plan distributions are not discussed in this publication. Get Publication 590 for information concerning the treatment of IRA contributions and distributions and Publication 560 for information on retirement plans for the self-employed.

Useful Items

You may want to see:

Publication

- ☐ **514** Foreign Tax Credit for Individuals
- ☐ **550** Investment Income and Expenses
- ☐ **551** Basis of Assets
- ☐ **560** Retirement Plans for the Self-Employed
- ☐ **590** Individual Retirement Arrangements (IRAs)

Form (and Instructions)

- ☐ **1099–B** Proceeds from Broker and Barter Exchange Transactions
- ☐ **1099–DIV** Dividends and Distributions
- ☐ **1116** Foreign Tax Credit
- ☐ **2439** Notice to Shareholder of Undistributed Long-Term Capital Gains
- ☐ **4952** Investment Interest Expense Deduction

See *How To Get More Information* near the end of this publication for information about getting these publications and forms.

Tax Treatment of Distributions

A mutual fund will send you a Form 1099–DIV, *Dividends and Distributions,* or a substitute form containing substantially the same language, to tell you what you must report or take into account on your income tax return. See *How To Report,* later.

Community property states. If you are married and receive dividend income that is community income, one-half of the income is generally considered to be received by each spouse. If you file separate returns, you must each report one-half of the dividends.

If the dividends are not considered community income under state law and you and your spouse file separate returns, each of you must report your separate income.

However, if you and your spouse lived apart all year, special rules may apply. Get Publication 555, *Community Property,* for more information on community income.

Share certificate in two or more names. If two or more persons, such as you and your spouse, hold shares as joint tenants, tenants by the entirety, or tenants in common, dividends on those shares are considered received by each of you to the extent provided by local law.

Certain year-end dividends received in January. Dividends declared and made payable by mutual funds in October, November, or December are considered received by shareholders on December 31 of that year even if the dividends are actually paid during January of the following year.

Kinds of Distributions

There are several kinds of distributions that you, as a shareholder, may receive from a mutual fund. They include:

- Ordinary dividends,
- Capital gain distributions,
- Exempt-interest dividends, and
- Return of capital (nontaxable) distributions.

Tax-exempt mutual fund. Distributions from a tax-exempt mutual fund (one that invests primarily in tax-exempt securities) may consist of ordinary dividends, capital gain distributions, undistributed capital gains, or return of capital like any other mutual fund. These distributions generally follow the same rules as a regular mutual fund.

Distributions designated as exempt-interest dividends are not taxable (see *Exempt-Interest Dividends,* later).

Ordinary Dividends

An ordinary dividend is a distribution by a mutual fund out of its earnings and profits. Include ordinary dividends that you receive from a mutual fund as dividend income on your individual income tax return.

Ordinary dividends are the most common type of dividends. They will be reported in box 1b of Form 1099–DIV. If you reinvested your dividends, see *Reinvestment of Distributions,* later.

Capital Gain Distributions

These distributions are paid by mutual funds from their net realized long-term capital gains. The Form 1099–DIV (box 1c) or the fund's statement will tell you the amount you are to report as a capital gain distribution. Report capital gain distributions as long-term capital gains on your return regardless of how long you have owned the shares in the mutual fund.

Report capital gain distributions on Schedule D, line 13. Enter on line 13 , column (f), the total capital gain distributions paid to you. Enter on line 13, column (g), the amounts reported to you as the 28% rate gain portion of your total capital gain distributions.

If you have over $400 of ***total*** dividends, you must also report all of your capital gain distributions on Schedule B.

If you received a capital gain distribution on mutual fund shares that you held for 6 months or less **and sold at a loss,** see *Certain short-term losses* under *Holding Period.*

Undistributed capital gains. Mutual funds may keep some of their long-term capital gains and pay taxes on those undistributed amounts. The mutual fund allocates these gains to you as capital gain distributions, even though you did not actually receive a distribution. You must report these amounts as long-term capital gains. You can take a credit for any tax paid because you are considered to have paid it.

Form 2439. The fund will send you Form 2439, *Notice to Shareholder of Undistributed Long-Term Capital Gains,* showing your share of the undistributed capital gains and any tax paid by the mutual fund. The undistributed capital gain shown on line 1a of Form 2439 is not reported on Form 1099–DIV. Report it on Schedule D, line 11. Enter on line 11, column (f), the total undistributed capital gain distributions. Enter on line 11, column (g), the amounts reported as 28% rate gain from line 1b of Form 2439.

The tax paid by the mutual fund is shown on line 2 of Form 2439. Take the credit by checking box a on line 59, Form 1040, and entering the tax shown from line 2 of Form 2439. Attach Copy B of Form 2439 to your return.

Increase to basis. When a mutual fund allocates undistributed capital gains to you, you can increase your basis in the shares. See *Adjusted Basis,* later.

Exempt-Interest Dividends

A mutual fund may pay exempt-interest dividends to its shareholders if it meets certain requirements. These dividends are paid from tax-exempt interest earned by the fund. Since the exempt-interest dividends keep their tax-exempt character, you do not include them in income, but you may need to report them on your return. See *Information reporting requirement,* next. The mutual fund will send you a statement within 60 days after the close of its tax year showing your exempt-interest dividends. Exempt-interest dividends are not shown on Form 1099–DIV. However, if you received exempt-interest dividends on mutual fund shares that you held for 6 months or less **and sold at a loss,** see *Certain short-term losses* under *Holding Period,* later.

Information reporting requirement. Although exempt-interest dividends are not taxable, you must report them on your tax return if you are required to file. This is an information reporting requirement and does **not** convert tax-exempt interest to taxable interest. Also, this income is generally a "tax preference item" and may be subject to the alternative minimum tax (AMT). If you receive exempt-interest dividends, you should get Form 6251, *Alternative Minimum Tax— Individuals,* for more information.

Return of Capital (Nontaxable) Distributions

A distribution that is not out of earnings and profits is a return of your investment, or capital, in the mutual fund and is shown in box 1d of Form 1099–DIV. These return of capital distributions are not taxed as ordinary dividends and are sometimes called tax-free dividends or nontaxable distributions. However, they may be fully or partly taxable as capital gains.

A return of capital distribution reduces your basis in the shares. Basis is explained later. Your basis cannot be reduced below zero. If your basis is reduced to zero, you must report the return of capital distribution on your tax return as a capital gain. The distribution is taxable if it, when added to all return of capital distributions received in past years, is more than your basis in the shares. Report this capital gain on Schedule D (Form 1040). Whether it is a long-term or short-term capital gain depends on how long you held the shares.

Example. You bought shares in a mutual fund in 1993 for $12 a share. In 1994, you received a return of capital distribution of $5 a share. You reduced your basis in each share by the $5 received to an adjusted basis of $7. In 1995, you received a return of capital distribution of $1 per share and further reduced your basis in each share to $6. In 1996, you received a return of capital distribution of $2 per share. Your basis is now reduced to $4. In 1997, the return of capital distribution from the mutual fund is $5 a share. You reduce your basis in each share to 0 and report the excess ($1 per share) as a long-term capital gain on Schedule D.

Reinvestment of Distributions

Most mutual funds permit shareholders to automatically reinvest distributions, including dividends and capital gains, in more shares in the fund. Instead of receiving cash, your distributions are used to purchase additional shares in the fund. You must report the reinvested amounts the same way as you would report them if you received them in cash.

How the distributions are reported depends on the kind of distribution reinvested. This means that reinvested ordinary dividends and capital gains distributions generally must be reported as income. Reinvested exempt-interest dividends generally are not reported as income. Reinvested return of capital distributions are reported as explained under the discussion above. See *Basis of Shares Sold,* later, to determine the basis of the additional shares.

How To Report

Your mutual fund reports amounts distributed to you and amounts allocated to you on Form 1099–DIV, or on a substitute form containing substantially the same language. If the distribution consists of ordinary dividends only, you can file Form 1040A. Otherwise, you must file Form 1040. If the total distribution reported to you by the fund includes only ordinary dividends of $400 or less, report the entire amount only on line 9 of Form 1040 or Form 1040A. Otherwise, you have to file one or more additional schedules depending on the nature of the dividend income you receive.

Table 1 explains where on Form 1040 or its related schedules to report distributions from mutual funds.

Foreign tax deduction or credit. Some mutual funds invest in foreign securities or other instruments. Your mutual fund may choose to allow you to claim a deduction or credit for the taxes it paid to a foreign country or U.S. possession. The fund will notify you if this applies to you. The notice will include your share of the foreign taxes paid to each country or possession and the part of the dividend derived from sources in each country or possession.

You must complete Form 1116 if you choose to claim the credit for income tax paid to a foreign country. However, it may be to your benefit to treat the tax as an itemized deduction on Schedule A (Form 1040). For more information on claiming a foreign tax deduction or credit, get Publication 514.

Keeping Track of Your Basis

You should keep track of your basis in mutual fund shares because you need the basis to figure any gain or loss on the shares when you sell, exchange, or redeem them.

When you buy or sell shares in a fund, keep the confirmation statements you receive. The statements show the price you paid for the shares when you bought them and the price you received for the shares when you disposed of them. The information from the confirmation statement when you purchased the shares will help you figure your basis in the fund.

If you acquire the shares by gift or inheritance, you need information different than what is in a confirmation statement to help you figure the basis of those shares, as discussed later.

Basis of Shares Sold

If you dispose of your shares in a mutual fund, it is important that you know their basis to figure your gain or loss. Their basis depends on how you acquired the shares.

Shares Acquired by Purchase

The original basis of mutual fund shares you bought is usually their cost or purchase price. The purchase price usually includes any commissions or load charges paid for the purchase.

Example. You bought 100 shares of Fund A for $10 a share. You paid a $50 commission to the broker for the purchase. Your cost basis for each share is $10.50 ($1,050 ÷ 100).

Table 1. **Reporting Mutual Fund Distributions on Form 1040**

Type of Distribution	Where to Report If Total Dividends From All Payers Are:	
	$400 or Less	**More than $400**
Gross Dividends Form 1099-DIV, Box 1a	Total amount in Box 1(a) is not reported on form or schedule	Schedule B, line 5
Ordinary Dividends Form 1099-DIV, Box 1b	Form 1040, line 9	Already included in Gross Dividend amount on line 5 of Schedule B
Capital Gain Distributions Form 1099-DIV, Box 1c	Schedule D, line 13	Schedule B, line 7 and Schedule D, line 13
Nontaxable Distributions Form 1099-DIV, Box 1d	Basis of shares reduced to zero? **No—**Not reported on form or schedule **Yes—**Report on Schedule D	Schedule B, line 8
Exempt-Interest Dividends (Not included on Form 1099-DIV)	Form 1040, line 8b	Form 1040, line 8b
Undistributed Capital Gains Form 2439, line 1a Form 2439, line 2	 **Gain—**Schedule D, line 11 **Tax—**Form 1040, line 59	 **Gain—**Schedule D, line 11 **Tax—**Form 1040, line 59

Commissions and load charges. The fees and charges you pay to acquire or redeem shares of a mutual fund are not deductible. You can usually add these fees and charges to your cost of the shares and thereby increase your basis. A fee paid to redeem the shares is usually a reduction in the redemption price (sales price).

You cannot add the fee or load charge to your cost if all of the following apply:

1) You get a reinvestment right because of the purchase of the mutual fund shares or the payment of the fee or charge,
2) You dispose of the shares within 90 days of the purchase date, and
3) You acquire new shares in the same mutual fund or another mutual fund, for which the fee or charge is reduced or waived.

If the load charge is reduced, rather than waived, the amount in excess of the reduction is added to the cost of the original shares.

The amount of the load charge that is reduced or waived is added to the cost basis of the new shares (unless all of the above items apply to the purchase of the new shares).

Reinvestment right. This is the right to acquire mutual fund shares in the same or another mutual fund without paying a fee or load charge, or paying a reduced fee or load charge.

Shares Acquired by Reinvestment

If your distributions are reinvested, keep the statements that show each date, amount, and number of full or fractional shares purchased. You should keep track of any adjustments to the basis of your mutual fund shares when the adjustment occurs.

Generally, you must know the basis **per share** to compute gain or loss when you dispose of the shares. This is explained later under *Identifying the Shares Sold.*

Ordinary dividends and capital gain distributions. The amount of the distribution used to purchase each full or fractional share is the cost basis for that share.

Exempt-interest dividends. The amount of the dividend used to purchase each full or fractional share is the cost basis for that share, even though exempt-interest dividends are not reported as income.

Shares Acquired by Gift

To determine your original basis of shares in a mutual fund you acquired by gift, you must know:

The donor's adjusted basis,

The date of the gift,

The fair market value at the time of the gift, and

Any gift tax paid on the gift of the shares.

Donor's adjusted basis. The donor's adjusted basis is the original cost or other original basis increased by such things as undistributed capital gains and decreased by such things as return of capital. Adjusted basis is discussed later.

Fair market value. The fair market value (FMV) of a share in a mutual fund you acquired by gift is the public redemption price (commonly known as the “bid price”) at the time the gift was made.

Fair market value less than donor's adjusted basis. If the shares were given to you, and their FMV at the time of the gift was less than the adjusted basis to the donor at the time of the gift, your basis for **gain** on their disposition is the donor's adjusted basis. Your basis for **loss** is their FMV at the time of the gift. In this situation, it is possible to sell the shares at neither a gain nor a loss because of the basis you have to use.

Example. You are given a gift of mutual fund shares with an adjusted basis of $10,000 at the time of the gift. The FMV of the shares at the time of the gift is $9,000. You later sell the shares for $9,500. The basis for figuring a gain is $10,000, so there is no gain. There also is no loss, since the basis for figuring a loss is $9,000. In this situation, you have neither a gain nor a loss.

Fair market value more than donor's adjusted basis. If the shares were given to you, and their FMV at the time of the gift was more than the donor's adjusted basis at the time of the gift, your basis is the donor's adjusted basis at the time of the gift, plus all or part of any gift tax paid on the gift, depending on the date of the gift.

For information on figuring the amount of gift tax to add to your basis, see *Property Received as a Gift* in Publication 551.

Shares Acquired by Inheritance

If you inherited shares in a mutual fund, your basis is generally their FMV at the date of the decedent's death, or at the alternate valuation date, if chosen for estate tax purposes.

Determining fair market value of inherited shares. The FMV of a share in a mutual fund acquired from a decedent is the last quoted public redemption price (commonly known as the “bid price”) on the date of death, or the alternate valuation date, if chosen for estate tax purposes.

Community property states. In community property states, you and your spouse generally are considered to each own half the estate (excluding separate property). If one spouse dies and at least half of the community interest is includible in the decedent's gross estate (whether or not the estate is required to file a return), the fair market value of the community property at the date of death becomes the basis of both halves of the property.

For example, if the FMV of the entire community interest in a mutual fund is $100,000, the basis of the surviving spouse's half of the shares is $50,000. The basis of the heirs' half of the shares also is $50,000.

In determining the basis of assets acquired from a decedent, property held in joint tenancy is community property if its status was community property under state law. (Community property state laws override joint tenancy rules.) This is true regardless of the form in which title was taken.

Shares decedent received as a gift. The above rule does not apply to appreciated property you or your spouse receive from a decedent if all the following conditions apply.

1) You or your spouse originally gave the shares to the decedent after August 13, 1981.
2) You gave the shares to the decedent during the one-year period ending on the date of death.
3) The death occurred after 1981.

In this situation, the basis of the shares is the decedent's adjusted basis in the shares immediately before his or her death, rather than their FMV. The same rule applies if the estate, or a trust of which the decedent was the grantor, sells the appreciated property and the donor (or the donor's spouse) is entitled to the proceeds.

Appreciated property is any property (including mutual fund shares) whose FMV on the day it was given to the decedent is more than its adjusted basis.

Adjusted Basis

After you acquire mutual fund shares, you may need to make further adjustments to your basis. The adjusted basis of stock is the original basis, increased or reduced as described here.

Addition to basis. Increase your basis in the fund by 65% of any undistributed capital gain that you include in your income. This has the effect of increasing your basis by the difference between the amount of gain you include in income and the credit you claim for the tax considered paid by you on that income.

The mutual fund reports the amount of your undistributed capital gain on line 1a of Form 2439. You should keep Copy C of all Forms 2439 to show increases in the basis of your shares.

Reduction of basis. You must reduce your basis in the fund by any return of capital distributions that you receive from the fund. You do not reduce your basis for distributions from the fund that are exempt-interest dividends.

Table 2 is a worksheet you can use to keep track of the adjusted basis of your mutual fund shares. Enter the cost per share when you acquire new shares and any adjustments to their basis when the adjustment occurs. This worksheet will help you figure the adjusted basis when you sell or redeem shares.

Table 2. **Mutual Fund Record**

Mutual Fund	Acquired[1]			Adjustments to Basis Per Share					Adjusted[2] Basis Per Share	Sold or redeemed	
	Date	Number of Shares	Cost Per Share							Date	Number of Shares

[1] Include shares received from reinvestment of dividends.

[2] Cost plus or minus adjustments.

Sales, Exchanges, and Redemptions

When you sell, exchange, or redeem your mutual fund shares, you will generally have a taxable gain or a deductible loss. This includes shares in a tax-exempt mutual fund. The amount of the gain or loss is the difference between your adjusted basis in the shares and the amount you realize from the sale, exchange, or redemption. This is explained further under *Gains and Losses.*

In general, a sale is a transfer of shares for money only. An exchange is a transfer of shares in return for other shares. A redemption occurs when a fund reacquires its shares. Sales, exchanges, and redemptions are all treated as taxable sales of capital assets.

Exchange of shares in one mutual fund for shares in another mutual fund. Any exchange of one fund for another fund is a taxable exchange. This is true even if you can exchange shares in one fund for shares in another fund that has the same distributor or underwriter without paying a sales charge. Report any gain or loss on the investment in the original shares as a capital gain or loss in the year in which the exchange occurs. Usually, you can add any service charge or fee paid in connection with an exchange to the cost of the shares acquired. For an exception, see *Commissions and load charges,* earlier, under *Basis of Shares Sold.*

Information returns. Mutual funds and brokers must report to the Internal Revenue Service the proceeds from sales, exchanges, or redemptions. They must give each customer a written statement with that information by January 31 of the year following the calendar year the transaction occurred. Form 1099–B, or a substitute, may be used for this purpose. Report your sales shown on Form(s) 1099–B (or substitute) on Schedule D (Form 1040) along with your other gains and losses. If the total sales reported on Form(s) 1099–B is **more** than the total you report on lines 3 and 10 of Schedule D, attach a statement to your return explaining the difference.

Taxpayer identification number. You must give the broker your correct taxpayer identification number (TIN). Generally, an individual will use his or her social security number as the TIN. If you do not provide your TIN, your broker is required to withhold tax at a rate of 31% on the gross proceeds of a transaction, and you may be penalized.

Identifying the Shares Sold

When you dispose of mutual fund shares, you need to determine which shares were sold and the basis of those shares. If your shares in a mutual fund were acquired all on the same day and for the same price, figuring their basis is not difficult. However, shares are generally acquired at various times, in various quantities, and at various prices. Therefore, the process can be more difficult. You may choose to use either the cost basis or the average basis.

Cost Basis

Under the cost basis, you can choose one of the following methods:

- Specific share identification, or
- First-in first-out (FIFO)

Specific share identification. If you can definitely identify the shares you sold, you can use the adjusted basis of those particular shares to figure your gain or loss.

You will adequately identify your mutual fund shares, even if you bought the shares in different lots at various prices and times, if you:

1) Specify to your broker or other agent the particular shares to be sold or transferred **at the time of the sale or transfer,** and
2) Receive confirmation of your specification from your broker **in writing** within a reasonable time.

The confirmation by the mutual fund must confirm that you instructed your broker to sell particular shares. You continue to have the burden of proving your basis in the specified shares at the time of sale or transfer.

First-in first-out (FIFO). If the shares were acquired at different times or at different prices and you cannot identify which shares you sold, use the basis of the shares you acquired first as the basis of the shares sold. Therefore, the oldest shares still available are considered sold first. You should keep a separate record of each purchase and any dispositions of the shares until **all** shares purchased at the same time have been disposed of completely. *Table 3* shows how to figure basis on a sale of shares in a mutual fund using the FIFO method. It also shows how to figure basis using the average basis method, discussed next.

Average Basis

You may be able to choose to use an average basis to figure your gain or loss when you sell all or part of your shares in a regulated investment company. You can make this choice only if you acquired the shares at various times and prices, and you left the shares on deposit in an account handled by a custodian or agent who acquires or redeems those shares.

TIP *You may be able to find the average basis of your shares from information provided by the fund.*

Once you elect to use an average basis, you must continue to use it for all accounts in the same fund. However, you may use a different method for shares in other funds, even those within the same family of funds.

Example. You own two accounts that hold shares of the income fund issued by Company A. You also own 100 shares of the growth fund issued by Company A. If you elect to use average basis for the first account of the income fund, you must use average basis for the second account. However, you may use cost basis for the growth fund.

To figure average basis, you can use one of the following methods:

- Single-category method
- Double-category method

Single-category method. In the single-category method, you find the average cost of **all** shares owned at the time of each disposition, regardless of how long you owned them. Include shares acquired with reinvested dividends or capital gains distributions.

Even though you use only one category to compute basis, you may have short-term or long-term gains or losses. To determine your holding period, the shares disposed of are considered to be those acquired first.

To compute the basis of your shares sold, follow these steps:

1) ADD: Cost of all shares owned.
2) DIVIDE: Result of #1 by number of shares owned. This is your **average basis per share.**
3) MULTIPLY: Result of #2 by number of shares sold. This is your basis of shares sold.

Example 1. You bought the following shares in the LJP Mutual Fund: 100 shares in 1994 at $10 per share; 100 shares in 1995 at $12 per share; and 100 shares in 1996 at $26 per share. On May 16, 1997, you sold 150 shares. The basis of shares sold is $2,400, computed as follows:

1) Total cost	
($1,000 + $1,200 + $2,600)	$4,800
2) Average basis per share	
($4,800 ÷ 300)	16.00
3) Basis of shares sold	
(16.00 × 150)	$2,400

Remaining shares. The basis of your shares determined under average basis is the basis of **all** your shares in the account at the time of each sale. If no shares were acquired or sold since the last sale, the basis of the remaining shares at the time of the next sale is the same as the basis of the shares sold in the last sale.

Example 2. Using the same facts as in Example 1, assume you sold an additional 50 shares on December 15, 1997, at $20 per share. You would not recompute the average basis of the 150 shares you owned at that time because no shares were acquired or sold since the last sale; rather, your basis is the $16 per share computed earlier.

Double-category method. In the double-category method, all shares in an account at the time of each disposition are divided into two categories: short-term and long-term. Shares held one year or less are short-term. Shares held longer than one year are long-term.

The adjusted basis of each share in a category is the total adjusted basis of all shares in that category at the time of disposition divided by the total shares in the category. You may specify, to the custodian or agent handling your account, from which category the shares are to be sold or transferred. The custodian or agent must confirm **in writing** your specification. If you do not specify or receive confirmation, you must first charge the shares sold against the long-term category and then, any remaining shares sold against the short-term category.

Changing categories. After you have held a mutual fund share for more than one year, you must transfer that share from the short-term category to the long-term category. When you make the change, the basis of a transferred share is its actual cost or adjusted basis to you, or if some of the shares in the short-term category have been disposed of, its basis under the average basis method. You would figure the average basis of the undisposed shares at the time of the most recent disposition from this category.

Making the choice. You choose to use the average basis of mutual fund shares by clearly showing on your income tax return, for each year the choice applies, that you used an average basis in reporting gain or loss from the sale or transfer of the shares. You must specify whether you used the single-category method or the double-category method in determining average basis. This choice is effective until you get permission from the IRS to revoke it.

Making the choice for gift shares. If your account includes shares that you received by gift, and the fair market value of the shares at the time of the gift was less than the donor's basis, special rules apply. To use the average basis, you must submit a statement with your initial choice to use one of the average basis methods. It must state that the basis used in figuring the average basis of the gift shares under either method will be the FMV at the time of the gift. This statement applies to gift shares you receive before and after making the choice, as long as the choice to use the average basis is in effect. If you do not make this statement, you cannot choose to use the average basis for any account that contains gift shares.

Gains and Losses

You figure gain or loss on the disposition of your shares by comparing the **amount you realize** with the **adjusted basis** of your shares. If the amount you realize is more than the adjusted basis of the shares, you have a gain. If the amount you realize is less than the adjusted basis of the shares, you have a loss.

Adjusted basis. Adjusted basis is explained earlier under *Keeping Track of Your Basis.*

Amount you realize. The amount you realize from a disposition of your shares is the money and value of any property you receive for the shares disposed of, minus your expenses of sale (such as redemption fees, sales commissions, sales charges, or exit fees).

Reporting information from Form 1099–B. Mutual funds and brokers report dispositions of mutual fund shares on Form 1099–B, or a substitute form containing substantially the same language. The form shows the sales price and indicates whether the amount reported is the gross amount or the net amount (gross amounts minus commissions).

If your Form 1099–B or similar statement from the payer shows the gross sales price, do not subtract the sales commissions from it when reporting your sales price in column (d) on Schedule D. Instead, report the gross amount in column (d) and increase your cost or other basis, column (e), by any expense of the sale such as sales commissions. If your Form 1099–B shows that the gross sales price less commissions was reported to IRS, enter the net amount in column (d) of Schedule D and **do not** increase your basis in column (e) by the sales commission.

Example 1. You sold 100 shares of Fund HIJ for $2,500. You paid a $75 commission to the broker for handling the sale. Your Form 1099–B shows that the net sales proceeds, $2,425 ($2,500 – $75), were reported to IRS.

Table 3. **How To Figure Basis of Shares Sold**

This is an example showing two different ways to figure basis. It compares the FIFO method and the average basis (single-category) method.

Date	Action	Share Price	No. of Shares	Shares Owned
02/4/96	Invest $4,000	$25	160	160
08/5/96	Invest $4,800	$20	240	400
12/16/96	Reinvest $300 dividend	$30	10	410
09/29/97	Sell $6,720	$32	210	200

FIFO: To figure the basis of the 210 shares sold on 9/29/97, use the share price of the first 210 shares you bought, namely the 160 shares you purchased on 2/4/96 and 50 of those purchased on 8/5/96.

	$4,000	(cost of 160 shares on 2/4/96)
	+ $1,000	(cost of 50 shares on 8/5/96)
Basis =	$5,000	

AVERAGE BASIS (single-category): To figure the basis of the 210 shares sold on 9/29/97, use the average basis of all 410 shares owned on 9/29/97.

	$9,100	(cost of 410 shares)
	÷ 410	(number of shares)
	$22.20	(average basis per share)
	$22.20	
	× 210	
Basis =	$4,662	

Report this amount in column (d) of Schedule D.

Example 2. You sold 200 shares of Fund KLM for $10,000. You paid a $100 commission to the broker for handling the sale. You bought the shares for $5,000. Your broker reported the gross proceeds to IRS on Form 1099–B, so you increase your basis in column (e) of Schedule D to $5,100.

Note: Whether you use Schedule D's line 1 (for a short-term gain or loss) or line 8 (for a long-term gain or loss) depends on how long you held the shares, discussed next.

Holding Period

When you dispose of your mutual fund shares, you must determine your holding period. Determine your holding period by using the trade dates. The **trade date** is the date on which you contract to buy or sell the mutual fund shares. Most mutual funds will show the trade date on your purchase and sale confirmation statements.

CAUTION *Do not confuse the trade date with the settlement date, which is the date by which the mutual fund shares must be delivered and payment must be made.*

Your holding period determines whether the gain or loss is a short-term capital gain or loss or a long-term capital gain or loss. If you hold the shares for one year or less, your gain or loss will be a short-term gain or loss. If you hold the shares for more than one year, your gain or loss will be a long-term gain or loss.

To find out how long you have held your shares, begin counting on the day after the day you bought the shares. (The day you bought the shares is the trade date.) This same date of each succeeding month is the start of a new month regardless of the number of days in the month before. The day you dispose of the shares (trade date) is also part of your holding period.

Example. If you bought shares on January 10, 1997 (trade date), start counting with January 11 to find out how long you have held them. The 11th of each following month is the beginning of a new month. If you sold the shares on January 10, 1998 (trade date), your holding period would not be more than one year. If you sold them on January 11, 1998, your holding period would be more than one year (12 months plus 1 day).

Mutual fund shares received as a gift. If you receive a gift of mutual fund shares and your basis is determined by the donor's basis, your holding period is considered to have started on the same day that the donor's holding period started.

Inherited mutual fund shares. If you inherit mutual fund shares, you are considered to have held the shares for more than eighteen months, regardless of how long you held them, if your basis is:

1) The FMV at the date of the decedent's death (or the alternate valuation date), or

2) The decedent's adjusted basis in the case of shares described earlier in *Shares decedent received as a gift,* under *Shares Acquired by Inheritance.*

Report the sale of inherited mutual fund shares on line 8 of Schedule D and write "Inherited" in column (b) instead of the date you acquired the shares.

Reinvested dividends. If your dividends are reinvested, each full share or fractional share is considered to have been purchased on the date that each share was purchased for you. Therefore, if you sell all or part of your mutual fund shares, you might have some short-term and some long-term gains and losses.

Certain short-term losses. Special rules apply if you have a short-term loss on the sale of shares on which you received an exempt-interest dividend or a capital gain distribution.

Exempt-interest dividends. If you received exempt-interest dividends on mutual fund shares that you held for 6 months or less and sold at a loss, you may claim only the part of the loss that is more than the exempt-interest dividends. Report the loss as a short-term capital loss.

Example. On January 8, 1997, you bought a mutual fund share for $40. On February 3, 1997, the mutual fund paid a $5 dividend from tax-exempt interest, which is not taxable to you. On February 12, 1997, you sold the share for $34. If it were not for the tax-exempt dividend, your loss would be $6 ($40 – $34). However, you can deduct only $1, the part of the loss that is more than the exempt-interest dividend ($6 – $5). On Schedule D, column (d), increase the sales price from $34 to $39 (the $5 portion of the loss that is not deductible). You can deduct only $1 as a short-term capital loss.

Capital gain distribution before short-term loss. Generally, if you received, or were considered to have received, capital gain distributions on mutual fund shares that you held for 6 months or less and sold at a loss, report only the part of the loss that is more than the capital gain distribution as a short-term capital loss. The part of the loss that is not more than the capital gain distribution is reported as a long-term capital loss.

Example. On April 7, 1997, you bought a mutual fund share for $20. On June 25, 1997, the mutual fund paid a capital gain distribution of $2 a share, which is taxed as a long-term capital gain. On July 11, 1997, you sold the share for $17.50. If it were not for the capital gain distribution, your loss would be a short-term loss of $2.50. However, the part of the loss that is not more than the capital gain distribution ($2) must be reported as a long-term capital loss. The remaining $0.50 of the loss can be reported as a short-term capital loss.

Wash sales. If you sell mutual fund shares at a loss and within 30 days before or after the sale you buy, acquire in a taxable exchange, or acquire a contract or option to buy, **substantially identical** property, you have a wash sale. You cannot deduct losses from wash sales.

In determining whether the shares are substantially identical, you must consider all the facts and circumstances. Ordinarily, shares issued by one company are not considered to be substantially identical to shares issued by another company.

For more information on wash sales, get Publication 550.

How To Figure Gains and Losses on Schedule D

Separate your short-term gains and losses from your long-term gains and losses on all the mutual fund shares and other capital assets you disposed of during the year. Then determine your net short-term gain or loss and your net long-term gain or loss.

Net short-term capital gain or loss. Net short-term capital gain or loss is determined by adding the gains and losses from column (f) of Part I, Schedule D (Form 1040), *Capital Gains and Losses.* Line 7 is the net short-term capital gain or loss.

Net long-term capital gain or loss. Net long-term capital gain or loss is determined by adding the gains and losses from lines 8 through 14 in column (f) of Part II, Schedule D (Form 1040). Line 16 is the net long-term capital gain or loss.

In figuring the long-term capital gain, you should include on line 11 of Part II, Schedule D (Form 1040), undistributed capital gain distributions and on line 13 of Part II, Schedule D (Form 1040), capital gain distributions received during the year.

Total Net Capital Gain or Loss

The total net capital gain or loss is determined by combining the net short-term capital gain or loss on line 7 with the net long-term capital gain or loss on line 16. Enter the result on line 17 of Part III, Schedule D (Form 1040).

Net capital gain. If line 17 of Part III, Schedule D (Form 1040) shows a gain, enter the amount on line 13 of Form 1040.

Using the maximum capital gains rates. The 31%, 36%, and 39.6% income tax rates for individuals do not apply to a net capital gain. In some cases, the 15% and 28% rates do not apply either. Instead, your net capital gain is taxed at a lower maximum rate.

Figuring your tax. You will need to use Part IV of Schedule D (Form 1040) to figure your tax using the maximum capital gains rates if both of the following are true.

1) You have a net capital gain. You have a net capital gain if both lines 16 and 17 of Schedule D (Form 1040) are gains. (Line 16 is your net long-term capital gain or loss. Line 17 is your net long-term capital gain or loss combined with any net short-term capital gain or loss.)

2) Your taxable income on Form 1040, line 38, is more than zero.

The maximum rate may be 10%, 20%, 25%, or 28%, or a combination of those rates, as shown in the following table.

The Maximum Rate is . . .	For . . .
28%	• Gain on a sale before May 7, 1997, of property held more than 1 year • Gain on a sale after July 28, 1997, of property held more than 1 year but not more than 18 months • A collectibles gain
25%	• Unrecaptured section 1250 gain on a sale after May 6, 1997, and before July 29, 1997, of property held more than 1 year • Unrecaptured section 1250 gain on a sale after July 28, 1997, of property held more than 18 months
20%	• Gain on a sale after May 6, 1997, and before July 29, 1997, of property held more than 1 year (unless 28%, 25%, or 10% rate applies) • Gain on a sale after July 28, 1997, of property held more than 18 months (unless 28%, 25%, or 10% rate applies)
10%	• Gain on a sale that would qualify for the 20% maximum rate except that, if there were no maximum capital gains rates, the gain would be taxed at the 15% regular tax rate

The term "sale" includes a trade, involuntary conversion, and installment payment received.

Note: Also see Table 4.

Net capital loss. If line 17 of Part III, Schedule D (Form 1040) shows a loss, your allowable capital loss deduction is the smaller of:

1) $3,000 ($1,500 if you are married and filing a separate return), or

2) Your net capital loss shown on line 17 of Schedule D.

Enter your allowable loss on line 13 of Form 1040.

Example 1. Bob and Gloria sold all of their shares in a mutual fund. The sale resulted in a capital loss of $7,000. They had no other sales of capital assets during the year. On their joint return, they can deduct $3,000, which is the smaller of their loss or the net capital loss limit.

If Bob and Gloria's capital loss had been $2,000, their capital loss deduction would have been $2,000, because it is less than the $3,000 limit.

Example 2. Margaret has capital gains and losses for the year as follows:

	Short-term	Long-term
Gains	$700	$400
Losses	(800)	(2,000)

Margaret's deductible capital loss is $1,700, which she figures as follows:

Table 4. **What Is Your Maximum Capital Gains Rate for 1997?**

IF the sale* took place . . .	AND the capital asset was held . . .	AND your gain . . .	THEN your maximum capital gains rate is . . .
Before May 7, 1997	More than 1 year	Is from selling any type of capital asset	28%
After May 6, 1997, but **before** July 29, 1997	More than 1 year	1) Is a collectibles gain	28%
		2) Is an unrecaptured section 1250 gain	25%
		3) Is not a gain that (1), (2), or (4) applies to	20%
		4) Would be taxed, if there were no maximum capital gains rates, at the 15% regular tax rate — and (1) and (2) don't apply	10%
After July 28, 1997	More than 1 year but not more than 18 months	Is from selling any type of capital asset	28%
After July 28, 1997	More than 18 months	1) Is a collectibles gain	28%
		2) Is an unrecaptured section 1250 gain	25%
		3) Is not a gain that (1), (2), or (4) applies to	20%
		4) Would be taxed, if there were no maximum capital gains rates, at the 15% regular tax rate — and (1) and (2) don't apply	10%

* The term "sale" includes a trade, involuntary conversion, and installment payment received.

Short-term capital losses	($800)	
Subtract short-term capital gains	700	
Net short-term capital loss		($100)
Long-term capital losses	($2,000)	
Subtract long-term capital gains .	400	
Net long-term capital loss		($1,600)
Deductible capital loss		($1,700)

Example 3. Mary and Les file a joint return. They have a net long-term capital loss of $5,600 and a net short-term capital gain of $450. Their net capital loss is $5,150 ($5,600–$450). Because their net capital loss exceeds $3,000, the amount they can deduct for the year is limited to $3,000.

Capital loss carryovers. If your net capital losses are more than your allowable net capital loss deduction, you may carry over the excess to later years until it is completely used up. To determine your capital loss carryover, subtract from your capital loss the lesser of:

1) Your allowable capital loss deduction for the year, or

2) Your taxable income increased by your allowable capital loss deduction for the year and by your deduction for personal exemptions.

If your deductions exceed your gross income, you start the computation with a negative number.

When carried over, the loss will keep its original character as long-term or short-term. Therefore, a long-term capital loss carried over from a previous year will offset long-term gains of the current year before it offsets short-term gains of the current year.

Use the *Capital Loss Carryover Worksheet* in the Schedule D instructions to figure your capital loss carryover.

Separate returns. Capital loss carryovers from separate returns are combined if you now file a joint return. However, if you once filed jointly and are now filing separately, a capital loss carryover from the joint return can be deducted only on the separate return of the spouse who actually had the loss.

For more information on figuring capital loss carryovers, get Publication 550.

Investment Expenses

You can generally deduct the expenses of producing taxable investment income. These include expenses for investment counseling and advice, legal and accounting fees, and investment newsletters. These expenses are deductible as miscellaneous itemized deductions to the extent that they exceed 2% of your adjusted gross income. See chapter 3 in Publication 550 for more information.

Interest paid on money to buy or carry investment property is also deductible. See *Limit on Investment Interest Expense,* later.

Publicly offered mutual funds. Generally, mutual funds are publicly offered funds. Expenses of publicly offered mutual funds are not treated as miscellaneous itemized deductions. This is because these mutual funds report only the net amount of investment income after your share of the investment expenses has been deducted.

Nonpublicly offered mutual funds. If you own shares in a nonpublicly offered mutual fund during the year, you can deduct your share of the investment expenses on your Schedule A (Form 1040). Claim them as a miscellaneous itemized deduction to the extent your miscellaneous deductions exceed 2% of your adjusted gross income. Your share of the expenses will be shown in box 1e of Form 1099–DIV. A nonpublicly offered mutual fund is one that:

1) Is not continuously offered pursuant to a public offering,

2) Is not regularly traded on an established securities market, and

3) Is not held by at least 500 persons at all times during the tax year.

Contact your mutual fund if you are not sure whether it is nonpublicly offered.

Expenses allocable to exempt-interest dividends. You cannot deduct expenses that are for the collection or production of exempt-interest dividends. Expenses must be allocated if they were for both taxable and tax-exempt income. One accepted method for allocating expenses is to divide them in the same proportion that your tax-exempt income from the mutual fund is to your total income from the fund. To do this, you must first divide your tax-exempt income by your total income. Then multiply the result by your expenses to find the part of the expenses that relates to the tax-exempt income. You cannot deduct this part.

Example. William received $600 in dividends from his mutual fund — exempt-interest dividends of $480 and taxable dividends of $120. In earning this income, he had a $50 expense for a newsletter on mutual funds. William divides the exempt-interest dividends by the total dividends to figure the part of the expense that is not deductible ($480 ÷ $600 = .80). Therefore, 80% of William's expense is for exempt-interest income. He cannot deduct $40 (80% of $50) of the expense. William may claim the balance of the expense, $10, as a miscellaneous deduction subject to the 2% of adjusted gross income limit. That is the part of the expense allocable to the taxable dividends.

Limit on Investment Interest Expense

The amount you can deduct as investment interest expense may be limited in two different ways. First, you may not deduct the interest on money you borrow to buy or carry shares in a mutual fund that distributes only exempt-interest dividends. If the fund also distributes taxable dividends, you must allocate the interest between the taxable and nontaxable income. Allocate the interest using the method of allocation explained under *Expenses allocable to exempt-interest dividends.*

Second, investment interest is limited by the amount of investment income. This is explained in the following discussions.

Limit on deduction. Your deduction for investment interest expense is limited to the amount of your net investment income. Net investment income is figured by subtracting your investment expenses other than interest from your investment income. For this purpose, do not include any income or expenses taken into account to figure gain or loss from passive activities.

Investment income. Investment income generally includes gross income derived from property held for investment (such as interest, dividends, annuities, and royalties). It generally does not include net capital gain derived from disposing of investment property or capital gain distributions from mutual fund shares. However, you can choose to include part or all of your net capital gain in investment income. For information on this choice, see chapter 3 of Publication 550.

Investment expenses. Investment expenses include all income-producing expenses relating to the investment property, other than interest expense, that are allowable deductions after subtracting 2% of adjusted gross income. In computing the amount over the 2% limit, miscellaneous expenses that are not investment expenses are disallowed before any investment expenses are disallowed.

For information on the 2% limit, get Publication 529, *Miscellaneous Deductions.* For more information on passive activity losses, get Publication 925, *Passive Activity and At-Risk Rules.*

Example. Jane, a single taxpayer, has investment income for the year of $12,000. Jane's investment expenses (other than interest expense) directly connected with the production of income were $980 after subtracting the 2% limit on miscellaneous itemized deductions. Jane incurred $12,500 of investment interest expense during the year. She had no passive activity losses. Jane figures net investment income and the limits on her investment interest expense deduction as follows:

Total investment income	$12,000
Subtract: Investment expenses (other than interest)	980
Net investment income	$11,020
Subtract: Investment interest expense	12,500
Excess interest expense not allowed for the year	$1,480

For the year, Jane's investment interest expense deduction is limited to $11,020 (her net investment income). The disallowed interest expense of $1,480 can be carried forward to the following year as explained next under *Carryover.*

Carryover. You can **carry forward** to the next tax year the investment interest that you cannot deduct because of the limit. You can deduct the interest carried forward to the extent that your net investment income exceeds your investment interest in that later year.

Form 4952. Use Form 4952, *Investment Interest Expense Deduction,* to figure your investment interest expense deduction. For more information about investment interest expense, get Publication 550.

How To Get More Information

You can get help from the IRS in several ways.

Free publications and forms. To order free publications and forms, call 1–800–TAX-FORM (1–800–829–3676). You can also write to the IRS Forms Distribution Center nearest you. Check your income tax package for the address. Your local library or post office also may have the items you need.

For a list of free tax publications, order Publication 910, *Guide to Free Tax Services.* It also contains an index of tax topics and related publications and describes other free tax information services available from IRS, including tax education and assistance programs.

If you have access to a personal computer and modem, you also can get many forms and publications electronically. See *Quick and Easy Access To Tax Help and Forms* in your income tax package for details.

Tax questions. You can call the IRS with your tax questions. Check your income tax package or telephone book for the local number, or you can call 1–800–829–1040.

TTY/TDD equipment. If you have access to TTY/TDD equipment, you can call 1–800–829–4059 to ask tax questions or to order forms and publications. See your income tax package for the hours of operation.

Evaluating the quality of our telephone services. To ensure that IRS representatives give accurate, courteous, and professional answers, we evaluate the quality of our "800 number" telephone services in several ways.

- A second IRS representative sometimes monitors live telephone calls. That person only evaluates the IRS assistor and does not keep a record of any taxpayer's name or tax identification number.
- We sometimes record telephone calls to evaluate IRS assistors objectively. We hold these recordings no longer than one week and use them to measure the quality of assistance.
- We value our customers' opinions. Throughout the year, we will be surveying our customers for their opinions on our service.

Comprehensive Example

Robert and Janice Martin have the following four sources of investment income to report on their 1997 tax return. Their Schedules B and D (Form 1040) are shown later.

1) $1,250 gain from the sale of 200 shares of Mutual Fund S on October 7, 1997. They received Form 1099–B, and they report the sale on Schedule D (Form 1040).

   Robert and Janice purchased these shares in 1983 at $10 each. They received some return of capital distributions in 1985, 1986, and 1994 that reduced their basis in the shares. The Martins never reinvested any of the distributions from this fund, and they received no 1997 distributions before the sale.

2) $326 of gross distributions from Mutual Fund R ($265 in ordinary dividends and $61 in capital gain distributions). They received Form 1099–DIV, and they report these distributions on Schedule B (Form 1040) and on Schedule D (Form 1040).

   Robert and Janice invested $3,800 in this fund in June 1997 and received 153.16 shares that cost $24.81 per share. They requested that all of their distributions be reinvested in more shares of the fund. On December 30, 1997, they acquired an additional 13.03 shares at $25.01 per share from their reinvested dividends.

3) $101 of exempt-interest dividends from Mutual Fund X. They receive a statement from the fund, and they report this nontaxable amount on line 8b of Form 1040.

   The Martins invested $2,600 in this fund in April 1995 and received 87.54 shares at $29.70 per share. They received exempt-interest dividends of $92 in 1995 and $107 in 1996.

4) $237 in ordinary dividends from 100 shares of common stock in Green Publishing Company. They received Form 1099–DIV, and they report the dividends on Schedule B (Form 1040).

   Robert and Janice bought this stock in 1983 for $10.29 per share.

Mutual Fund Record. Robert and Janice keep track of all their basis adjustments on their *Mutual Fund Record,* shown later. They show the return of capital distributions from Mutual Fund S and the reinvested dividends from Mutual Fund R. They do not show the exempt-interest dividends from Mutual Fund X because those dividends do not reduce their basis in the shares.

The Martins keep this record with their mutual fund documents, and they use it to report their 1997 sale of Mutual Fund S.

Preparing their return. The Martins first use their two Forms 1099–DIV to figure the dividend income they report on Schedule B. They then use their Form 1099–B and their *Mutual Fund Record* to figure the gain from the sale of Mutual Fund S they report on Schedule D.

Schedule B, Part II. On line 5, Robert and Janice list the $326 gross distributions from Mutual Fund R and the $237 in ordinary dividends from Green Publishing Company (from box 1a of Forms 1099–DIV). They enter the total of $563 on line 6.

On line 7, they enter the $61 capital gain distribution from Mutual Fund R (from box 1c of Form 1099–DIV). They leave line 8 blank and enter $61 on line 9. They subtract that amount from the $563 on line 6 and enter the result, $502, on line 10. This amount is their ordinary dividends. They carry the $502 to line 9 of Form 1040, and the $61 capital gain distribution (shown on line 7) to Schedule D.

Schedule D, Part II. Robert and Janice enter the $61 capital gain distribution from Mutual Fund R on line 13, column (f). They do not make an entry in column (g) of line 13 because Mutual Fund R indicated that none of the capital gain distribution was a 28% rate gain distribution.

They report the sale of their shares in Mutual Fund S on line 8 because they owned the shares for more than one year. They do not make an entry in column (g) of line 8 because they held the shares for 18 months or more. They use the information from their *Mutual Fund Record* to complete boxes a, b, and e. After adjustment for their return of capital distributions, their basis in column (e) is $1,978 ($9.89 per share). They use their Form 1099–B to complete boxes c and d. Their sales price in column (d) is $3,228 ($16.14 per share). Their gain of $1,250 is entered in column (f).

Robert and Janice add the amounts on lines 8 and 13 and enter their net long-term capital gain of $1,311 on line 16. Because lines 16 and 17 are gains, they compute their tax using Part IV of Schedule D (not shown).

Table 2. **Mutual Fund Record**

Mutual Fund	Acquired[1]			Adjustments to Basis Per Share					Adjusted[2] Basis Per Share	Sold or redeemed	
	Date	Number of Shares	Cost Per Share							Date	Number of Shares
MUTUAL FUND S	7-10-83	200	10.00	12-31-85 (.05)	12-31-86 (.02)	12-31-94 (.04)			9.89	10-7-97	200
MUTUAL FUND X	4-16-95	87.54	29.70								
MUTUAL FUND R	6-6-97	153.16	24.81								
	12-30-97	13.03	25.01								

[1] Include shares received from reinvestment of dividends.

[2] Cost plus or minus adjustments.

Name(s) shown on Form 1040. Do not enter name and social security number if shown on other side.
ROBERT A and JANICE P MARTIN

Your social security number: 123 00 4567

Schedule B—Interest and Dividend Income

Attachment Sequence No. **08**

Part I Interest Income

(See pages 12 and B-1.)

Note: *If you had over $400 in taxable interest income, you must also complete Part III.*

Note: If you received a Form 1099-INT, Form 1099-OID, or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

			Amount
1	List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see page B-1 and list this interest first. Also, show that buyer's social security number and address ▶	**1**	
2	Add the amounts on line 1	**2**	
3	Excludable interest on series EE U.S. savings bonds issued after 1989 from Form 8815, line 14. You MUST attach Form 8815 to Form 1040	**3**	
4	Subtract line 3 from line 2. Enter the result here and on Form 1040, line 8a ▶	**4**	

Part II Dividend Income

(See pages 12 and B-1.)

Note: *If you had over $400 in gross dividends and/or other distributions on stock, you must also complete Part III.*

Note: If you received a Form 1099-DIV or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total dividends shown on that form.

			Amount
5	List name of payer. Include gross dividends and/or other distributions on stock here. Any capital gain distributions and nontaxable distributions will be deducted on lines 7 and 8 ▶	**5**	
	GREEN PUBLISHING COMPANY		237
	MUTUAL FUND R		326
6	Add the amounts on line 5	**6**	563
7	Capital gain distributions. Enter here and on Schedule D — **7**: 61		
8	Nontaxable distributions. (See the inst. for Form 1040, line 9.) — **8**:		
9	Add lines 7 and 8	**9**	61
10	Subtract line 9 from line 6. Enter the result here and on Form 1040, line 9 ▶	**10**	502

Part III Foreign Accounts and Trusts

(See page B-2.)

	You must complete this part if you **(a)** had over $400 of interest or dividends; **(b)** had a foreign account; or **(c)** received a distribution from, or were a grantor of, or a transferor to, a foreign trust.	Yes	No
11a	At any time during 1997, did you have an interest in or a signature or other authority over a financial account in a foreign country, such as a bank account, securities account, or other financial account? See page B-2 for exceptions and filing requirements for Form TD F 90-22.1		X
b	If "Yes," enter the name of the foreign country ▶		
12	During 1997, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If "Yes," you may have to file Form 3520 or 926. See page B-2		X

SCHEDULE D (Form 1040)

Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

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

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

OMB No. 1545-0074

1997

Attachment Sequence No. **12**

Name(s) shown on Form 1040: ROBERT A. and JANICE P. MARTIN

Your social security number: 123 00 4567

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-3)	(e) Cost or other basis (see page D-4)	(f) GAIN or (LOSS) FOR ENTIRE YEAR. Subtract (e) from (d)
1						
2	Enter your short-term totals, if any, from Schedule D-1, line 2		2			
3	**Total short-term sales price amounts.** Add column (d) of lines 1 and 2		3			
4	Short-term gain from Forms 2119 and 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 9 of your 1996 Capital Loss Carryover Worksheet				6	( )
7	**Net short-term capital gain or (loss).** Combine lines 1 through 6 in column (f) ▶				7	

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

	(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-3)	(e) Cost or other basis (see page D-4)	(f) GAIN or (LOSS) FOR ENTIRE YEAR. Subtract (e) from (d)	(g) 28% RATE GAIN or (LOSS) *(see instr. below)
8	200 Shares MUTUAL FUND S	7-10-83	10-7-97	3,228	1,978	1,250	
9	Enter your long-term totals, if any, from Schedule D-1, line 9		9				
10	**Total long-term sales price amounts.** Add column (d) of lines 8 and 9		10	3,228			
11	Gain from Form 4797, Part I; long-term gain from Forms 2119, 2439, and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824				11		
12	Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				12		
13	Capital gain distributions				13	61	
14	Long-term capital loss carryover. Enter in both columns (f) and (g) the amount, if any, from line 14 of your 1996 Capital Loss Carryover Worksheet				14	( )	
15	Combine lines 8 through 14 in column (g)				15		
16	**Net long-term capital gain or (loss).** Combine lines 8 through 14 in column (f) ▶				16	1,311	

***28% Rate Gain or Loss** includes all gains and losses in Part II, column (f) from sales, exchanges, or conversions (including installment payments received) **either:**
- **Before** May 7, 1997, **or**
- **After** July 28, 1997, for assets held more than 1 year but **not** more than 18 months.

It also includes **ALL** "collectibles gains and losses" (as defined on page D-4).

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11338H **Schedule D (Form 1040) 1997**

Index

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