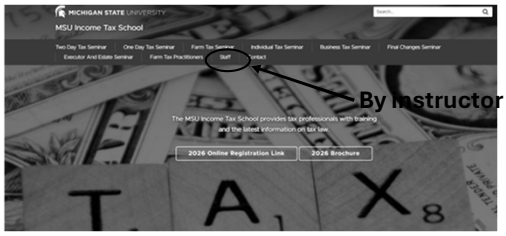
Power point slides – 2 ways!

https://www.canr.msu.edu/taxschool/two-day-tax-seminar-powerpoint-slides

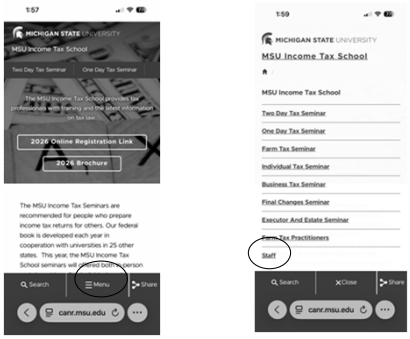
Or

Search: MSU Income Tax School




1

How it looks on a phone







2

Find the 5 instructors under *STAFF*



BILL VANEERDEN



MARY JANE HOURANI



DON SCOTT

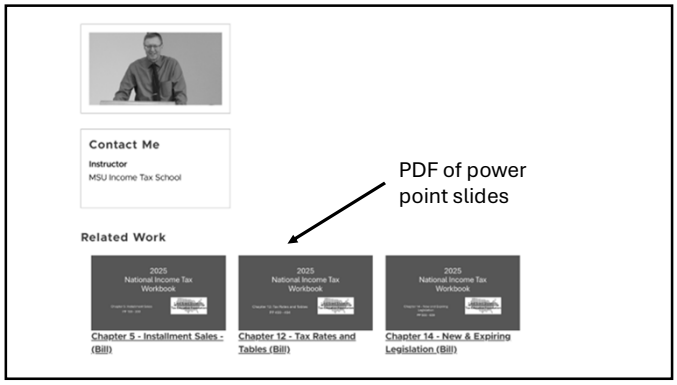


SUE SCIOLI



PAM MOCK

3




4

# 2026 National Income Tax Workbook

Chapter 8 Capital Gains and Losses
PP 273 - 313

Land Grant University
Tax Education Foundation

5

## Objectives

273



Capital Asset defined

Basis Holding Period

Identification in dispositions

Tax rates and netting



Capital loss disallowance

Loss limits and carryover and carryback

Net Investment income tax

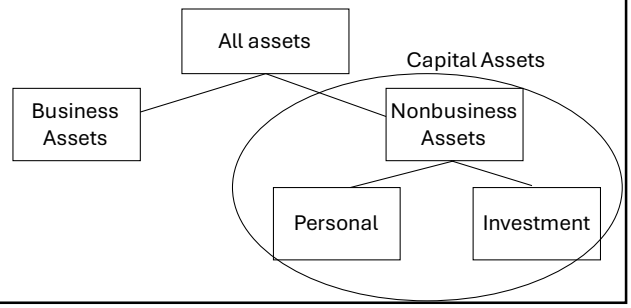
The end

Form 8949 Schedule D

6

## Issue #1 Capital Asset defined

275




7

## Noncapital Assets

275

Hey IRC 1221 – Please tell us what a capital asset is.
NOPE – I'll just tell you want it's not.

All assets - Noncapital assets = Capital assets

**Turn to page 275 – list of 10 noncapital assets**



8

## Capital Assets

276

Capital Assets

Personal assets | Investment property

Holding Period immaterial

**Capital**

**tricky** Border line

Real property

Held for investment | Primarily for sale to customers

**Turn to page 276 – 8 factors courts have used**

X

9

## Objectives

273



Capital Asset defined

Basis Holding Period

Identification in dispositions

Tax rates and netting



Capital loss disallowance

Loss limits and carryover and carryback

Net Investment income tax

The end

Form 8949 Schedule D

10

## Issue #2 - Basis and Holding Period

277

Basic formula:

Amount Realized xxx,xxx
Adjusted Basis (yyy,yyy)
Gain or loss zz,zzz

- Cost basis
- Like Kind exchange
- Involuntary conversions
- Gifts
- Inherited assets

P 277

4 Exceptions

P 277 - 280

Holding Period – begins the day **after** acquisition date




11

## Purchased Assets

277




Purchase Price + Costs of Purchase = Basis

- Commissions
- Transfer fees
- Settlement fees
- Closing costs

Could have been many years earlier

Real estate – improvements?

12

## 1. Like-Kind Exchange Property

277




EXCHANGE




Basis and Holding Period

Basis and Holding Period

Exchange costs
Add'l consideration
Gain recognized

13

## Example 8.1

278

Olivia

Northern Mississippi Land — Exchanged for — Southern Mississippi Land

| | | | |
|---|---|---|---|
| FMV | 75,000 | FMV | 75,000 |
| Basis | 50,000 | Basis | 50,000 |
| Realized Gain | 25,000 | Deferred gain | 25,000 |

1031 recognized gain zero



**If Boot received, taxable**

14

## Example 8.2 – deferred exchange

278



Jennica Sold for 45,000

Jennica Bought for 40,000



Alabama farmland
FMV 45,000
Basis 10,000

Gain recognized 5,000

45,000 – 40,000

Mississippi farmland

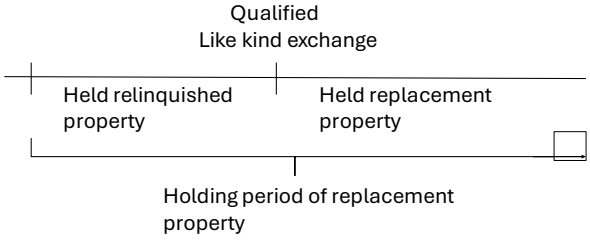
**FIGURE 8.1**
**Jennica Farley's Basis in the Replacement Property**

| | |
|---|---|
| Basis of land exchanged | $10,000 |
| Plus: Gain recognized | 5,000 |
| Less: Unlike property received (cash) | (5,000) |
| Basis of new land | $10,000 |

15

## Holding Period of replacement property

278




16

## 2. Involuntary Conversion Property

279



Personal use
Business investment



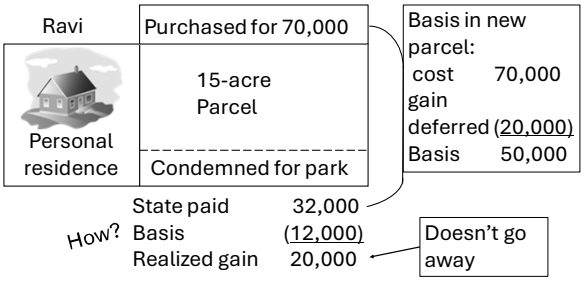



- No gain. Basis: cost decreased by gain not recognize
- Carryover holding period

17

## Example 8.4

279




18

## 3. Gifted Property

279

Donor → Property → Donee

- Basis same as donor
- Donor's holding period is added on

Exception: FMV less than donor's adjusted basis:
1. Donee's basis for determining loss is FMV at date of gift.
2. Holding period starts on day after gift.

19

## 4. Inherited assets

280

Decedent → Property → heir




Basis generally FMV at date of death



Tricky! Good!

Holding period deemed to be long-term, even if sold within 1 year

20

## Objectives

273



Capital Asset defined

Basis Holding Period

Identification in dispositions

Tax rates and netting



Capital loss disallowance

Loss limits and carryover and carryback

Net Investment income tax

Form 8949 Schedule D

The end

21

## Issue #3 Identification of stock and Mutual Fund shares in a disposition

281

Sale of stock




But, which shares sold when purchased at different times/prices?

**Basis?**

**Specific Identification**
Adequate identification

**FIFO**
Not Adequate identification

**Average**
May be the default method of broker

22

## Example 8.5

281

Kareem purchased Maxo stock:
- 1/22/20 300 x 43.00 = 12.900
- 12/10/24 200 x 65.00 = 13,000

Kareem sell 100 shares of Maxo stock:
9/30/26 for 75/share

| If no specific identification: | |
|---|---|
| Sales price | 7,500 |
| FIFO – basis: | |
| 100 x 43.00 = | (4,300) |
| Gain | 3,200 |
| Tax at 15% | 480 |

| If specific identification: | |
|---|---|
| Sales price | 7,500 |
| 12/10/24 shares– basis: | |
| 100 x 65.00 = | (6,500) |
| Gain | 1,000 |
| Tax at 15% | 150 |

23

## Average basis of Mutual Fund shares

282

Average Cost may be the default method used by brokerage firms




Taxpayers must use the default method, unless the taxpayer notifies the broker that they elect another method

24

## Average basis of Mutual Fund shares

282

If taxpayer sells shares acquired in connection with a dividend reinvestment plan taxpayer can determine gain or loss using average cost basis if:

- Acquired identical shares (same CUSIP number) at various times and prices
- Left them on deposit in account kept by custodian or agent

Average basis: aggregate basis/aggregate number of shares
Sell on FIFO basis to determine long or short term

25

## Example 8.6

282

Walt buys shares of LMN Mutual Fund

| | | | |
|---|---|---|---|
| 2013 | 100 x 26.00 | = | 2,600 |
| 2016 | 100 x 12.00 | = | 1,200 |
| 2021 | 100 x 10.00 | = | 1,000 |
| | 300 | | 4,800 |

$\frac{4,800}{300}$ = 16.00/share

Walt sells 150 shares. Basis: 150 x 16.00 = 2,400

NOTE: for holding period, 100 shares acquired in 2013 and 50 shares acquired in 2016 (FIFO)

26

## Specific Identification vs FIFO

283

Cost basis (Not previously used average)

| Specific share identification | FIFO |
|---|---|
| System allows taxpayer to specify before sale which shares are to be sold | Default method . Uses the basis of the shares acquired first. |
| Taxpayer can control gain | Rising Market – increases gain |

27

## Example 8.7

283

Cora sells 100 shares for 10.00 each. Which ones?

FIGURE 8.4
Cora Noland's Capital Fund Purchases

| Date | Action | Price per Share | Number of Shares | Cost |
|---|---|---|---|---|
| January 15, 2024 | Purchase | $10 | 1,000 | $10,000 |
| December 15, 2024 | Reinvestment | $12 | 100 | $ 1,200 |
| July 15, 2025 | Purchase | $10 | 1,000 | $10,000 |
| December 15, 2025 | Reinvestment | $ 8 | 200 | $ 1,600 |

?

Specific identification
12/15/24 shares as sold.
100 x 12.00 = 1,200 basis
200 capital loss

No identification, must use FIFO.
100 x 10.00 = 1,000 basis
no gain or loss

28

## Objectives

284



Capital Asset defined

Basis Holding Period

Identification in dispositions

Tax rates and netting



Capital loss disallowance

Loss limits and carryover and carryback

Net Investment income tax

Form 8949 Schedule D

The end

29

## Issue #4 – Capital Gains tax rates and netting

284

Short term- 1 year or less
Taxed at Taxpayer's marginal ordinary income marginal rate

Joint

- **10%**: $0 – $24,800
- **12%**: $24,801 – $100,800
- **22%**: $100,801 – $211,400
- **24%**: $211,401 – $403,550
- **32%**: $403,551 – $768,700
- **35%**: $768,701 – $768,700+
- **37%**: Over $768,700

Long term- more than 1 year

| | |
|---|---|
| Collectibles and 1202 gain (Qualified small business stock) | 28% |
| 1250 recapture | 25% |
| Other | 0% |
| | 15% |
| | 20% |

30

## Capital gain rates for noncorporate taxpayers

285

FIGURE 8.5
Capital Gains Rates—Noncorporate Taxpayers

| Filing Status | Maximum Taxable Income for 0% Rate Amount | Maximum Taxable Income for 15% Rate Amount |
|---|---|---|
| Married filing jointly and surviving spouse | $98,900 | $613,700 |
| Married filing separately | $49,450 | $306,850 |
| Head of household | $66,200 | $579,600 |
| All other individuals | $49,450 | $545,500 |
| Estate or trust | $ 3,300 | $ 16,250 |

31

## Netting Capital gains and losses

285

Remember, 3 rate groups:
28%
25%
0%, 15%, 20%

Net gains and losses within each group to arrive at a net gain or loss

**6 netting rules - page 285**






Tax software will take care of this

32

## Netting Capital Gains and losses #1

285

STCL + STCL carryovers = STCG (STCL) → Net STCG

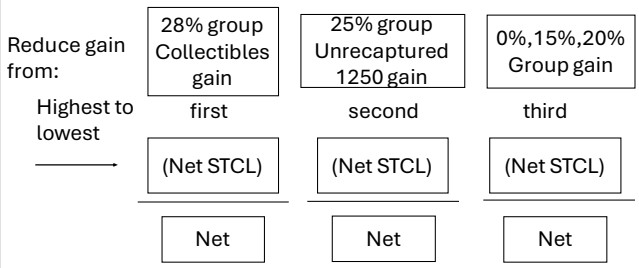
Taxed at ordinary rates

But, what if you have a net STCL?

33

## Netting Capital Gains and Losses #2

285

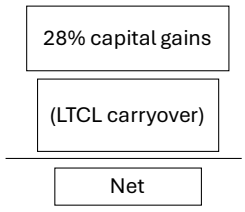



34

## Netting Capital Gains and Losses #3

285

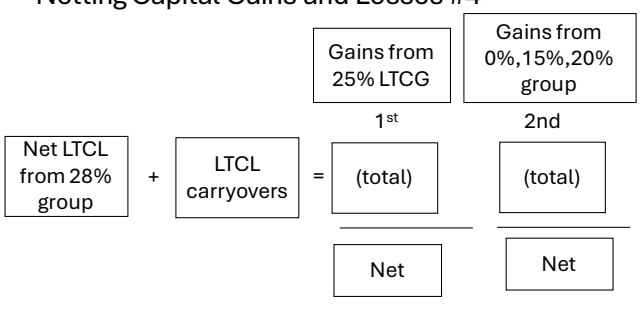
What if you have a Long term Capital loss carryover?




35

## Netting Capital Gains and Losses #4

285




36

## Netting Capital Gains and Losses #5

285

| Gains from 28% LTCG | Gains from 25% LTCG |
|---|---|
| 1st | 2nd |
| Net LTCL from 0%, 15%, 20% group | Net LTCL from 0%, 15%, 20% group |
| Net | Net |

37

## Netting Capital Gains and Losses #6

285

After all the netting has taken place:

| Net gain in 28% group | Net gain in 25% group | Net gain in 0%, 15%, 20% group |
|---|---|---|

Taxed at a maximum of that group's marginal tax rate, not to exceed the taxpayer's marginal ordinary income tax rate.

38

## Example 8.10

286

| | | | | | |
|---|---|---|---|---|---|
| From 2025 | STCL carryover (1,000) | + LTCL carryover (2,000) | = Total (3,000) | | |
| 2026 | STCL (2,100) | 28% LTCG 6,800 | 25% LTCG **11,200** | 0%,15%,20% LTCG 1,000 | |
| | | | | 1,200 | |
| P 289 | (3,100) | → (3,100) | P 288 | **2,200** | |
| | | (2,000) | | | |
| P 287 | | **1,700** | P 290 | **Total 15,100** | |

39

## Example 8.10

291

Page 291 and 292



Takes care of all the netting!

Schedule D worksheet

40

## Example 8.8

285

Ruby – single, no dependents
Schedule D – 12,000 STCG
(7,000) LTCL
5,000 STCG
Taxed at ordinary income marginal rates

Without netting, 12,000 gain taxed at ordinary rates and capital loss limited to 3,000?

Shows how netting rules benefits the taxpayer

41

## Objectives

273



Capital Asset defined

Basis Holding Period

Identification in dispositions

Tax rates and netting



Capital loss disallowance

Loss limits and carryover and carryback

Net Investment income tax

Form 8949 Schedule D

The end

42

## Issue # 5 Capital Loss Deduction Disallowances

293

There are reasons why capital losses are not allowable in the current year:

1. Wash sales
2. Related parties
3. Personal use assets



43

## 1. Wash sales

293

Date of Stock sale

30 days | 30 days

61 days

Taxpayer acquired substantially identical stock

**Loss not allowable**

44

## Example 8.11

293 + 294

11/11/24 | 12/22/26 | 1/5/27

| Acquired 1,000 shares x 100.00/share | Sold 1,000 shares x 60.00/share | Acquired 1,000 shares x 62.00/share |
|---|---|---|

100,000 | 60,000

40,000 loss disallowed
Added to basis

Acquired substantially identical stock within 30 days after sale

See page 294 for 8949

45

## Wash-sale attribution

294

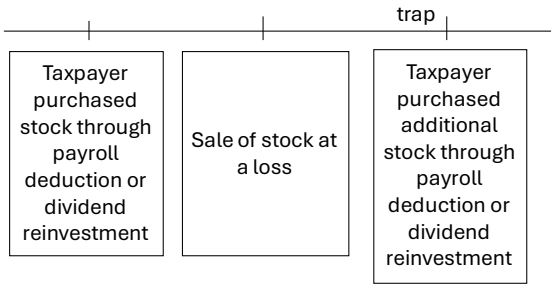
Wash sales stock ownership attribution rules

| | | |
|---|---|---|
| Spouse | ⟷ | Spouse |
| Individual | ⟷ | Controlled corporation or trust |
| Individual | ⟷ | IRA |

46

## Payroll deduction / dividend reinvestment

295

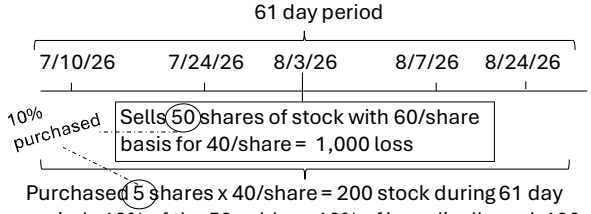



47

## Example 8.13

295

Roland paid bi-weekly. 50/pay period to purchase employer stock




48

## 2. Related-Party sales

295

Party #1 → Sale of property at a loss → Related Party #2 → Sale of property at a gain → Unrelated Party #3

Cannot recognize the loss

Takes cost basis in the asset

Reduce gain by loss disallowed to Party #1

49

## Example 8.14 + 8.15 + 8.16

295 & 296

Mother (Angel) → Daughter (Lidia) → Unrelated





| | |
|---|---|
| Sold land for FMV | 125,000 |
| Basis | (130,000) |
| Loss | (5,000) |
| Not deductible | |

| | |
|---|---|
| Sold for | 131,000 |
| Basis | (125,000) |
| Gain | 6,000 |
| Less | (5,000) |
| recognized gain | 1,000 |

If Lidia sells for a loss, 5,000 lost

50

## 3. Personal Use Assets

296

**IRC 165 - allows**

| | | |
|---|---|---|
| Losses incurred in a trade or business | Losses incurred in a transaction entered into for profit | Certain losses arising from a casualty or theft |

**IRC 165 - disallows**

The deduction for losses arising from the sale of personal use assets. HOWEVER, gains are taxable.

**What?**

51

## Example 8.17

297



Dallas



Basis – 400,000

Celia

Job change → Moved



Atlanta

Sold house for 355,000

45,000 loss not deductible

Even because of a job change

52

## Personal Use Assets converted to business

297



Personal Residence converted to business use

Basis for calculating future LOSS is the lesser of:

- Property's FMV
- Tax basis at time of conversion (less any depreciation)

53

## Example 8.17

297

Remember Celia?



Dallas

Job change → Moved

Atlanta

| | | | | | |
|---|---|---|---|---|---|
| Basis – (no) | 400,000 | | Sells for | | 290,000 |
| FMV - | 355,000 | | Basis: | | |
| Land | (40,000) | | FMV | 355,000 | |
| Depr basis | 315,000 | | depr | (11,455) | (343,545) |
| Claimed depr | 11,455 | | Loss - not deductible | | 53,545 |

54

## Example 8.18

297 - 298



Celia

Dallas — Job change / Moved → Atlanta

| | | | | |
|---|---|---|---|---|
| Basis – (yes) | 400,000 | Sells for | | 425,000 |
| FMV - | 355,000 | Basis: | | |
| Land | (40,000) | | 400,000 | |
| Depr basis | 315,000 | depr | (11,455) | (388,545) |
| Claimed depr | 11,455 | Gain | | 36,455 |

55

## Objectives

273



Capital Asset defined

Basis Holding Period

Identification in dispositions

Tax rates and netting



Capital loss disallowance

Loss limits and carryover and carryback

Net Investment income tax

The end

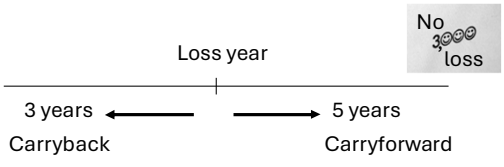
Form 8949 Schedule D

56

## Issue #6 Capital Loss Limits Carryover and Carrybacks

299

Corporations – losses only allowed to extent of gains




57

## Example 8.20

299

Zeke Construction Corp

| 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|
| 2,000 | 4,000 | 1,000 | (10,000) | |
| (2,000) | (4,000) | (1,000) | | (3,000) |
| | | Carryback | | carryforward |

Cannot forego carryback years
Cannot create an NOL
Use Form 1139 (not 1120X)

58

## Other taxpayers (not corporations)

299

- Capital losses limited to Capital gains plus 3,000 (1,500 MFS)
- Excess carried forward (not back)
- In carryforward year, treat as if the loss occurred in that year.
- Use worksheet in Pub 550
- Loss retains character as long-term or short-term
- Capital losses cannot be carried over after a taxpayer's death. Estate cannot deduct any excess loss .

59

## Example 8.21

300

Ricardo

2026

| | | | Used | | Carry forward |
|---|---|---|---|---|---|
| Use first → | STCL | ( 2,000) | 2,000 | | - |
| | LTCL | (12,000) | - 1,000 | = | (11,000) |
| | | (14,000) | 3,000 | | indefinitely |

60

## Objectives

273



Capital Asset defined

Basis Holding Period

Identification in dispositions

Tax rates and netting



Capital loss disallowance

Loss limits and carryover and carryback

Net Investment income tax

The end

Form 8949 Schedule D

61

## Issue #7 Net Investment Income Tax

301

- Unearned income - Medicare contribution
- 3.8% tax on higher-income taxpayer's unearned income. (2.9% Medicare + .9% additional Medicare)
- Certain capital gains are included in the NIIT, while certain capital gains are excluded

62

## Overview



301

Net Investment income

Modified AGI

Foreign earned income adjustments

Over

| | |
|---|---|
| Joint | 250,000 |
| Separate | 125,000 |
| All other | 200,000 |

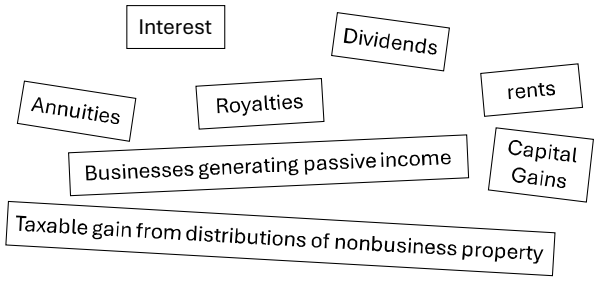
Only applies to US citizens and residents

Lesser of x 3.8% = NIIT

63

## Determination of Net Investment Income

301




64

## Deductions allocable to income or gain

302

| | |
|---|---|
| Investment Income | xx,xxx |
| Less: "deductions allocable to income or gain" | (y,yyy) |
| Net investment tax income | zz,zzz |




IRC 1411(c)(1) (B)
"the deductions allowed by this subtitle which are property allocable to such gross income"

65

## Capital Gains included in NIIT

302

*Subject to NIIT*

- Stocks, bonds, mutual funds
- Personal-use property
- Personal residence – excess over 121 exclusion
- Gains from the sale of rental property (except R/E professionals)

*Not subject to NIIT*

Tax exempt securities

66

## Distributions from partnerships

302

*Subject to NIIT*

- Distributions of money in excess of basis treated as gain from the sale or exchange of a partnership interest

*Not subject to NIIT*

- Guaranteed payments
- Payments received for services

IRC 736 payments to a retiring or deceased partner's successor. Depends on character of payments



67

## Example 8.22

302

Partnership

Distribution of money in excess of basis

Demitrius

Treated as gain from the sale of his partnership interest

Included in net investment income

68

## Sale of Partnership and S corp interest

302

*Subject to NIIT*

- Generally, included in net investment income.
- Disposition of a passive interest

*Not subject to NIIT*

- If interest not passive, there is an "ordinary course of a trade or business exception"
- Treat as if all assets sold for FMV (deemed sale).
- Exclude gain from assets used in the business

69

## Example 8.23 – see calculations on 303

303

Kai sold her 50% interest in Bay View Partnership for an 85,000 gain which has the following activities:

| X business | Y business | Z business | Securities |
|---|---|---|---|
| Passive | Passive | Materially participates | |
| Included in NIIT | Included in NIIT | Not included in NIIT | Included in NIIT |

70

## Capital gains excluded from NIIT

303 + 304

**CONCEPT**

"if an item is not recognized as income for regular tax purposes during the current year, then it is not considered in calculating NIIT for the current year"

IE: Small Business Stock gain
Gain on sale of Principal Residence
Real Estate Professionals




71

## Net Capital Losses

305

Other sources of investment income

Reduce? Net Capital Losses  No. Only the 3,000

Net investment income

72

## Example 8.25 - 2026

305

Gretchen – single, no dependents

10,000 gain on Q stock

40,000 loss on P stock

300,000 wages

5,000 interest

(3,000)

Net 30,000 capital loss

NO

Net investment income of 2,000

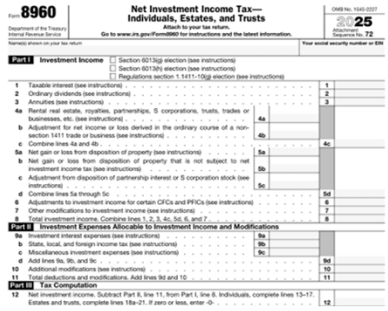
Allowed to use 3,000

Carry forward to 2027 – 27,000

73

## Calculating the Net Investment Income Tax

305



Form 8960 — Net Investment Income Tax—Individuals, Estates, and Trusts — 2025

Attach to your tax return.

Go to www.irs.gov/Form8960 for instructions and the latest information.

Part I Investment Income

1 Taxable interest (see instructions)

2 Ordinary dividends (see instructions)

3 Annuities (see instructions)

4a Rental real estate, royalties, partnerships, S corporations, trusts, trades or businesses, etc. (see instructions)

b Adjustment for net income or loss derived in the ordinary course of a non-section 1411 trade or business (see instructions)

c Combine lines 4a and 4b

5a Net gain or loss from disposition of property (see instructions)

b Net gain or loss from disposition of property that is not subject to net investment income tax (see instructions)

c Adjustment from disposition of partnership interest or S corporation stock (see instructions)

d Combine lines 5a through 5c

6 Adjustments to investment income for certain CFCs and PFICs (see instructions)

7 Other modifications to investment income (see instructions)

8 Total investment income. Combine lines 1, 2, 3, 4c, 5d, 6, and 7

Part II Investment Expenses Allocable to Investment Income and Modifications

9a Investment interest expenses (see instructions)

b State, local, and foreign income tax (see instructions)

c Miscellaneous investment expenses (see instructions)

d Add lines 9a, 9b, and 9c

10 Additional modifications (see instructions)

11 Total deductions and modifications. Add lines 9d and 10

Part III Tax Computation

12 Net investment income. Subtract Part II, line 11, from Part I, line 8. Individuals, complete lines 13-17. Estates and trusts, complete lines 18a-21. If zero or less, enter -0-

Unless MAGI, less threshold, is less

Income

Deductions

Net x 3.8%

74

## Example 8.27

306

Facts: Julian and Marta

MAGI 545,000

Net investment income 65,000

Calculation:

Lesser of: 545,000 – 250,000 = 295,000

or 65,000

65,000 x 3.8% = 2,470

Schedule 2- Form 1040 - Add'l taxes line 12

75

306

## Example 8.28

Facts: Brandon and Raquel
MAGI 325,000
Net investment income 80,000

See Form 8960 pages 306 & 307

Calculation:
Lesser of: 325,000 – 250,000 = 75,000
or 80,000
75,000 x 3.8% = 2,850

Schedule 2- Form 1040 - Add'l taxes line 12

76

273

## Objectives



Capital Asset defined

Basis Holding Period

Identification in dispositions

Tax rates and netting



Capital loss disallowance

Loss limits and carryover and carryback

Net Investment income tax

The end

Form 8949 Schedule D

77

308

## Issue # 8 - Form 8949 and Schedule D

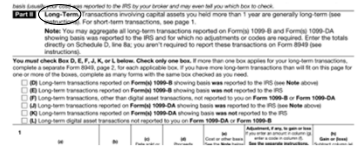



Short Term

6 categories
Check the box

Long Term

6 categories
Check the box




78

Form 8949

309

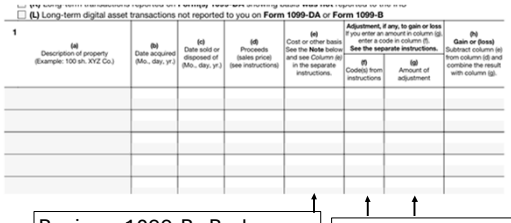
**See page 309 for Boxes**

**Prepare a separate 8949 for each applicable box**

79

Form 8949

309 + 310



See page 310 for codes

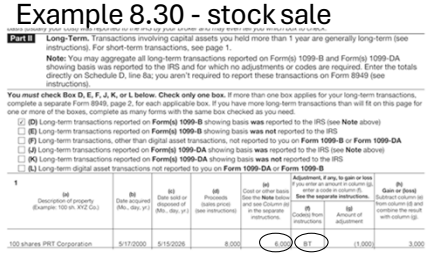
Basis on 1099-B - Brokers or 1099-DA - Digital Assets may not be correct

Code for reason and adjustment amount

80

Example 8.30 - stock sale

310 - 311



Page 311

1099-B incorrectly reported 6,000 basis and short term

Put incorrect basis in (e) and use code BT to adjust

81

## Form 8949 exceptions

312

Exception #1 – Aggregate certain transactions and report directly on Schedule D

**Only if:**
1099-B and 1099-DA shows basis and no adjustments
Ordinary box not checked
Adjustments are not required
No elections
No deferral terminations

82

## Form 8949 exceptions

313

Exception #2 - instead of reporting each transaction on a separate row of Form 8949, taxpayer's can report transactions on an attached statement containing all the same information.

83

## Report Directly on Schedule D

313

- Installment Sale
- Like kind exchanges
- Capital gain distributions not reported on 1040, line 7
- Sale Business property
- Notice to S/H of undistributed L/T capital gain
- Casualty Thefts
- Capital loss carryover
- 1256 contracts and straddles
- Capital gains and losses from a partnership, S corp, estate

x

84




85