Instructions for Schedule D-1
Sales of Business Property
(Also Involuntary Conversions and Recapture Amounts Under IRC Sections 179 and 280F(b)(2))

Who May File
Any individual, corporation, partnership, estate or trust may file Schedule D-1, unless instructions for the form it relates to (Form N-15, N-30, etc.) provides otherwise, such as Form N-11.

Purpose of Form
Use Schedule D-1 to report:
- The sale or exchange of property used in your trade or business; depreciable and amortizable property; oil, gas, geothermal, or other mineral properties; and section 126 property.
- The involuntary conversion (from other than casualty or theft) of property used in your trade or business and capital assets held in connection with a trade or business, or a transaction entered into for profit.
- The disposition of noncapital assets other than inventory or property held primarily for sale to customers in the ordinary course of your trade or business.
- The disposition of capital assets not reported on Schedule D.
- The gain or loss (including any related recapture) for partners and S corporation shareholders for certain section 179 property disposions by partnerships and S corporations.
- At-Risk Rules.—If you report a loss on an asset used in an activity for which you are not at-risk, in whole or in part, see the instructions for federal Form 6198, At-Risk Limitations. Also, see Publication 925, Active Passivity and At-Risk Rules. Losses from passive activities are first subject to the at-risk rules and then to the passive activity rules.

CAUTION: Do not confuse this schedule with the federal Schedule D-1.

Special Rules
Allocation of Purchase Price.—If you acquire or dispose of assets that constitute a trade or business, the buyer and seller must allocate the total purchase price using the “residual method” and must file federal Form 8594, Asset Acquisition Statement.

Examples of Items Reportable on this Form.—Where to Make First Entry.

Below are common examples of items reportable on this form. Columns (b) and (c) indicate where to make the first entry on Schedule D-1.

<table>
<thead>
<tr>
<th>(a) Type of property</th>
<th>(b) Held one year or less</th>
<th>(c) Held more than one year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Depreciable trade or business property:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a Sold or exchanged at a gain</td>
<td>Part II</td>
<td>Part III (sec. 1245, 1250)</td>
</tr>
<tr>
<td>b Sold or exchanged at a loss</td>
<td>Part II</td>
<td>Part I</td>
</tr>
<tr>
<td>2 Depreciable residential rental property:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a Sold or exchanged at a gain</td>
<td>Part II</td>
<td>Part III (sec. 1250)</td>
</tr>
<tr>
<td>b Sold or exchanged at a loss</td>
<td>Part II</td>
<td>Part I</td>
</tr>
<tr>
<td>3 Farmland held less than 10 years upon which soil, water, or land-clearing expenses were deducted after December 31, 1976:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a Sold at a gain</td>
<td>Part II</td>
<td>Part III (sec. 1252)</td>
</tr>
<tr>
<td>b Sold at a loss</td>
<td>Part II</td>
<td>Part I</td>
</tr>
<tr>
<td>4 Disposition of certain cost-sharing payment property described in section 126:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Part II</td>
<td>Part III (sec. 1255)</td>
</tr>
<tr>
<td>5 Cattle and horses used in a trade or business for draft, breeding, dairy, or sporting purposes:</td>
<td>Held less than 24 months</td>
<td>Held 24 months or more</td>
</tr>
<tr>
<td>a Sold at a gain</td>
<td>Part II</td>
<td>Part III (sec. 1245)</td>
</tr>
<tr>
<td>b Sold at a loss</td>
<td>Part II</td>
<td>Part I</td>
</tr>
<tr>
<td>c Raised cattle and horses sold at a gain</td>
<td>Part II</td>
<td>Part I</td>
</tr>
<tr>
<td>6 Livestock other than cattle and horses used in a trade or business for draft, breeding, dairy, or sporting purposes:</td>
<td>Held less than 12 months</td>
<td>Held 12 months or more</td>
</tr>
<tr>
<td>a Sold at a gain</td>
<td>Part II</td>
<td>Part III (sec. 1245)</td>
</tr>
<tr>
<td>b Sold at a loss</td>
<td>Part II</td>
<td>Part I</td>
</tr>
<tr>
<td>c Raised livestock sold at a gain</td>
<td>Part II</td>
<td>Part I</td>
</tr>
</tbody>
</table>

At-Risk Rules.—If you report a loss on an asset used in an activity for which you are not at-risk, in whole or in part, see the instructions for federal Form 6198, At-Risk Limitations. Also, see Publication 925, Active Passivity and At-Risk Rules. Losses from passive activities are first subject to the at-risk rules and then to the passive activity rules.

Involuntary Conversion of Property.—You may not have to pay tax on a gain from an involuntary or compulsory conversion of property. See Publication 544, Sales and Other Dispositions of Assets, for details.

Exclusion on the Sale of a Home Used for Business.—If you rented or used part of your home for business and meet certain requirements, you may be able to exclude part or all of the gain figured on line 25. However, the exclusion may not apply to the part of the gain that is allocated to any period after December 31, 2008, during which the property was not used as your principal residence. For details on the exclusion and allocating the sales price, expenses of sale, and the adjusted basis of the home, see the instructions for Form N-103, Sale of Your Home, and federal Publication 523, Selling Your Home.

If the home was held for more than 1 year, figure the gain on the part that was rented or used for business in Part III. Do not take the exclusion into account when figuring the gain on line 25. If you qualify for and are claiming the exclusion for sales after May 6, 1997, and line 23 includes depreciation for periods after that date, you cannot exclude gain to the extent of that depreciation. On line 2 of Part I, write “IRC Section 121 exclusion” and enter the business part of the exclusion as a “loss” in column (g). If the home was held for 1 year or less, report the sale and business part of the exclusion in a similar manner on line 11 of Part II.

Passive Loss Limitations.—If you have an overall loss from passive activities, and you report a loss on an asset used in a passive activity, use federal Form 8882, Passive Activity Loss Limitations or Form 8810, Corporate Passive Activity Loss and Credit Limitations, to see how much loss is allowed before entering it on Schedule D-1.

Recapture of Preproductive Expenses.—If you elected out of the uniform capitalization rules of section 263A, any plant that you produce is treated as section 1245 property. For dispositions of plants reportable on Schedule D-1, enter the recapture
Part I

Inheritance, enter "INHERITED" in column (b) instead of the date you acquired the property.

Section 1231 transactions are:

- Sales or exchanges of real or depreciable property used in a trade or business and held for more than one year. To figure the holding period, begin counting on the day after you received the property and include the day you disposed of it.
- Cutting of timber that the taxpayer elects to treat as a sale or exchange under section 631(a).
- Disposal of timber with a retained economic interest that is treated as a sale under section 631(b).
- Disposal of coal (including lignite) or iron ore mined in the United States with a retained economic interest that is treated as a sale under section 631(c).
- Sale or exchanges of cattle and horses, regardless of age, used in a trade or business by the taxpayer for draft, breeding, dairy, or sporting purposes and held for 24 months or more from acquisition date.
- Sales or exchanges of livestock other than cattle or horses, regardless of age, used by the taxpayer for draft, breeding, dairy, or sporting purposes and held for 12 months or more from acquisition date.

Note: Livestock does not include poultry, chickens, turkeys, pigeons, geese, other birds, fish, frogs, reptiles, etc.

- Sales or exchanges of unharvested crops. See section 1231(b)(4).
- Involuntary conversions of trade or business property or capital assets held more than one year in connection with a trade or business or a transaction entered into for profit. These conversions may result from (a) part or total destruction, (b) theft or seizure, or (c) requisition or condemnation (whether threatened or carried out). If any recognized losses were from involuntary conversion from fire, storm, shipwreck, or other casualty, or from theft, and they exceed the recognized gains from the conversions, do not include them when figuring your net section 1231 losses.

Section 1231 transactions do not include sales or exchanges of:

- Inventory or property held primarily for sale to customers.
- Copyrights, literary, musical, or artistic compositions, letters or memoranda, or similar property (a) created by your personal efforts, (b) prepared or produced for you (in the case of letters, memoranda, or similar property), or (c) received from someone who created them or for whom they were created, as mentioned in (a) or (b), in a way that entitled you to the basis of the previous owner (such as by gift).
- U.S. Government publications, including the Congressional Record, that you received from the Government, other than by purchase at the normal sales price, or that you got from someone who had received it in a similar way, if your basis is determined by reference to the previous owner's basis.

Figuring the prior year losses.—You had a net section 1231 loss if your section 1231 losses exceeded your section 1231 gains. Section 1231 gains are included only to the extent taken into account in computing gross income. Section 1231 losses are included only to the extent taken into account in computing taxable income except that the limitation on capital losses does not apply. See Publication 544 for more details.

Line 10.—For record keeping purposes, if line 10 is zero, the amount on line 8 is the amount of net section 1231 loss recaptured in 2019. If line 10 is more than zero, you have recaptured in 2019 all of your net section 1231 losses from prior years.

Part II

If a transaction is not reportable in Part I or Part III and the property is not a capital asset reportable on an applicable Schedule D, report the transaction in Part II.

If you receive ordinary income from a sale or other disposition of your interest in a partnership, get Publication 541, Partnerships.

Line 11.—Report other ordinary gains and losses, including property held one year or less, on this line.

Section 1244 (small business) stock.—Individuals report ordinary losses from the sale or exchange (including worthlessness) of section 1244 (small business) stock on line 11.

The maximum amount that may be treated as an ordinary loss is $50,000 ($100,000, if married filing a joint return). Special rules may limit the amount of your ordinary loss if (a) you received section 1244 stock in exchange for property with a basis in excess of its fair market value or (b) your stock basis increased from contributions to capital or otherwise. See Publication 550, Investment Income and Expenses, for more details. Report on Schedule D or on the Capital Gain/Loss Worksheet in the Form N-15 Instructions losses in excess of the maximum amount that may be treated as an ordinary loss (and gains from the sale or exchange of section 1244 stock).

Keep adequate records to distinguish section 1244 stock from other stock owned in the same corporation.

Line 11b(1).—You must complete this line if there is a gain on Schedule D-1, line 3; a loss on Schedule D-1, line 12; and a loss on federal Form 4684, line 35, column (b)(ii). Enter on this line the smaller of the loss on Schedule D-1, line 12; or the loss on federal Form 4684, line 35, column (b)(ii). To figure which loss is smaller, treat both losses as positive numbers. For Form N-15 filers, enter the part of the loss from income-producing property on Worksheet NR-6, line 31 or 32, or on Worksheet PY-6, line 57 or 58 in the Form N-15 Instructions; and the part of the loss from property used as an employee on Worksheet NR-6, line 25 or 26, or on Worksheet PY-6, line 48 or 49. See instructions for Form N-15.

Part III

Part III is used to compute recapture of depreciation and certain other items that must be reported as ordinary income on the disposition of property. Fill out lines 20 through 25 to determine the gain on the disposition of the property. If you have more than four properties to report, use additional forms. For more details on depreciation recapture, see Publication 544.
Note: If the property was sold on the installment sale basis, see the instructions for federal Form 6252 before completing this part. Also, if you have both installment sales and non-installment sales, you may want to use separate Schedules D-1, Part III, for the installment sales and for the non-installment sales.

Line 21.—The gross sales price includes money, the fair market value of other property received, and any existing mortgage or other debt the buyer assumes or takes the property subject to. For casualty or theft gains, include insurance or other reimbursement you received or expect to receive for each item. Include on this line your insurance coverage, whether or not you are submitting a claim for reimbursement.

For section 1255 property disposed of in a sale, exchange, or involuntary conversion, enter the amount realized. For section 1255 property disposed of in any other way, enter the fair market value.

Line 22.—Do not reduce the cost or other basis on this line by any of the following amounts:
- Deductions allowed or allowable for depreciation, amortization, depletion, or preproductive expenses; or
- The section 179 expense deduction.

Instead, include these amounts on line 24. They will be used to determine the property's adjusted basis on line 24.

Line 23.—This line should show all adjustments for deductions (whether for the same or other property) allowed or allowable to you or any other person for depreciation or amortization. If you are not a partnership or an S corporation, use the following computation to determine the amount to enter on line 23:
- Add deductions allowed or allowable for depreciation, amortization, depletion, or preproductive expenses.
- Add the section 179 expense deduction.
- Add the commercial revitalization deduction.

Add the deduction for qualified clean-fuel vehicle property or refueling property placed in service before January 1, 2006.

Add the deduction for energy efficient commercial building property placed in service after December 31, 2005.

Subtract any section 179 or 280F(b)(2) recapture amount included in gross income in a prior tax year because the business use of the property dropped to 50% or less.

Subtract any qualified clean-fuel vehicle property or refueling property deduction you were required to recapture because the property ceased to be eligible for the deduction.

You may have to include depreciation allowed or allowable on another asset (and recompute the basis amount on line 22) if you use its adjusted basis in determining the adjusted basis of the property described on line 20. An example is property acquired by a trade-in. See Regulations section 1.1245-2(a)(4).

Partnerships should enter the deductions allowed or allowable for depreciation, amortization, or depletion on line 23. Enter the section 179 expense deduction on Form N-35, Schedule K, line 21 but only if you are disposing of property acquired in tax years beginning after 1982.

Line 24.—For section 1255 property, enter the adjusted basis of the section 126 property disposed of.

Line 26.—Section 1245 Property

Section 1245 property is depreciable (or amortizable under section 185 (repealed), 197, or 1253(d)(2) or (3) (as in effect before the enactment of Public Law 103-66)) and is one of the following:
- Personal property.
- Elevators and escalators placed into service before 1-1-87.
- Real property (other than property described under tangible real property below) subject to amortization or deductions under section 169, 179, 179A, 179C, 179D, 185 (repealed), 188 (repealed), 190, 193, or 194.
- Tangible real property (except buildings and their structural components) if it is used in any of the following ways:
  1. As an integral part of manufacturing, production, extraction, or of furnishing transportation, communications, or certain other public utility services.
  2. As a research facility in these activities.
- Any railroad grading or tunnel bore (as defined in section 168(i)(13)).

See section 1245(b) for exceptions and limits involving:
- Gifts.
- Transfers at death.
- Certain tax-free transactions.
- Certain like-kind exchanges, involuntary conversions, etc.
- Property distributed by a partnership to a partner.
- Disposition of qualified low-income housing.
- Transfers of property to tax-exempt organizations where the property will be used in an unrelated business.
- Disposition of property as a result of foreclosure proceedings.
- Special rules:
  1. For additional depreciation attributable to rehabilitation expenditures, see section 1250(b)(4).
  2. If substantial improvements have been made, see section 1250(f).

Lines 27a, 27d, and 27g.—For property held for more than one year, additional depreciation is the excess of actual depreciation attributable to periods after December 31, 1964, over depreciation computed for the same period using the straight line method. Enter on line 27a the additional depreciation for the period after December 31, 1976, on line 27d the additional depreciation for the period after December 31, 1974, and before January 1, 1977, and on line 27g the additional depreciation for the period after December 31, 1964, and before January 1, 1975.

If the depreciation figured using the straight line method is more than the actual depreciation taken for any period, the additional depreciation for the next prior period should be reduced, but not below zero, by that amount.

Line 27.—Section 1250 Property

Section 1250 property is depreciable real property (other than section 1245 property). Section 1250 recapture applies to certain recovery property and to depreciable nonrecovery real property when an accelerated depreciation method was used or you claimed the commercial revitalization deduction.

The section 1250 recapture rules do not apply to dispositions of 27.5-year (or 40-year, if elected) residential rental property or 22-year, 31.5-year, or 39-year (or 40-year, if elected) nonresidential real property, placed in service after 12-31-86 (or after 7-31-86, if the election is made).

Real property depreciable under ACRS (pre-1987 rules) is subject to recapture under section 1245, except for the following, which are treated as section 1250 property:
- 15-year, 19-year, or 19-year real property and low-income housing which is residential rental property.
- 15-year, 19-year, or 19-year real property and low-income housing which is used mostly outside the United States.
- 15-year, 19-year, or 19-year real property and low-income housing for which a straight line election was made.
- Low-income rental housing described in clause (l), (ii), (iii), or (iv) of section 1250(a)(1)(B). See instructions for line 27b.

See section 1250(d) for exceptions and limits involving:
- Gifts.
- Transfers at death.
- Certain tax-free transactions.
- Certain like-kind exchanges, involuntary conversions, etc.
- Property distributed by a partnership to a partner.
- Disposition of qualified low-income housing.
- Transfers of property to tax-exempt organizations where the property will be used in an unrelated business.
- Disposition of property as a result of foreclosure proceedings.
- Special rules:
  1. For additional depreciation attributable to rehabilitation expenditures, see section 1250(b)(4).
  2. If substantial improvements have been made, see section 1250(f).
Line 27b.—Use 100% as the percentage for this line, except for low-income rental housing described in clause (i), (ii), (iii), or (iv) of section 1250(a)(1)(B). For this type of low-income rental housing, see section 1250(a)(1)(B) for the percentage to use.

Line 27e.—Use 100% as the percentage for this line, except for residential rental property (and property disposed of under a written contract binding at all times since July 24, 1969). For this type of property, see section 1250(a)(2)(B) for the percentage to use.

Line 27h.—The applicable percentage is 100% minus 1% for each full month the property was held for more than 20 full months.

Line 28.—Section 1252 Property

Partnerships should skip this section. Partners should enter on the applicable lines of Part III amounts subject to section 1252 according to instructions from the partnership.

You may have ordinary income on the disposition of certain farmland held more than 1 year but less than 10 years.

Refer to section 1252 to determine if there is ordinary income on the disposition of certain farmland for which deductions were allowed for expenditures made after December 31, 1976, under sections 175 (soil and water conservation) and 182 (land clearing) (repealed). Skip line 28 if you dispose of such farmland within the 10th or later year after you acquire it.

Gain from disposition of certain farmland is subject to ordinary income rules under section 1252 before being considered under section 1231 (Part I).

Line 28b.—Enter 100% of line 28a on line 28b except as follows:

- 80% if the farmland was disposed of within the sixth year after acquisition;
- 60% if disposed of within the seventh year;
- 40% if disposed of within the eighth year;
- 20% if disposed of within the ninth year; or
- zero, if disposed of within the tenth or later year.

Line 29.—Section 1254 Property

If you dispose of oil, gas, or geothermal property placed in service before 1987 at a gain, treat all or part of the gain as ordinary income. Include on line 23 any depletion allowed (or allowable) in determining the adjusted basis of the property.

If you dispose of oil, gas, geothermal, or other mineral properties (section 1254 property) placed in service after 1986 at a gain, you must recapture all expenses that were deducted as intangible drilling costs, depletion, and exploration costs, and development costs, under sections 263, 616, and 617.

**Exception:** Property placed in service after 1986 and acquired under a written contract entered into before September 26, 1985, and binding at all times thereafter is treated as placed in service before 1987.

Line 29a.—If the property was placed in service before 1987, enter the total amount of expenses after 1976 that:

- Were deducted by the taxpayer or any other person as intangible drilling and development costs under section 263(c). (Previously expended mining costs, that have been included in income upon reaching the producing state, are not taken into account in determining recapture under section 1254.); and
- Would have been reflected in the adjusted basis of the property if they had not been deducted.

If the property was placed in service after 1986, enter the total amount of expenses that:

- Were deducted under section 263, 616, or 617 by the taxpayer or any other person; and
- Which, but for such deduction would have been included in the basis of the property; plus
- The deduction under section 611 that reduced the adjusted basis of such property.

If you disposed of a portion of section 1254 property or an undivided interest in it, see section 1254(a)(2).

Line 30.—Section 1255 Property

Line 30a.—Use 100% if the property is disposed of less than 10 years after receipt of payments excluded from income. Use 100% minus 10% for each year, or part of a year, that the property was held over 10 years after receipt of the excluded payments. Use zero if 20 years or more.

Part IV

Section 179 Property.—Column (a)—If you took a deduction under section 179 for property placed in service after 1986 (other than listed property, as defined in section 280F(d)(4)), and the business use of the property was reduced to 50% or less this year, complete column (a) of lines 34 through 36 to figure the amount to be recaptured.

For property placed in service after 1986 the recapture must be made if the property is not used predominantly in your trade or business at any time.

**Listed Property.—Column (b)**—If you have listed property that you placed in service in a prior year and the business use percentage dropped to 50% or less this year, figure the amount to be recaptured under section 280F(b)(2). Complete column (b), lines 34 through 36. See Publication 463, Travel, Entertainment, Gift, and Car Expenses, for more details on recapture of excess depreciation.

**Note:** If you have more than one property subject to the recapture rules, use separate statements to figure the recapture amounts and attach the statements to your tax return.

Line 34.—Column (a)—Enter the section 179 expense deduction claimed when the property was placed in service.

Column (b)—Enter the depreciation allowable on the property in prior tax years. Include any section 179 expense deduction you took as depreciation.

Line 35.—Column (a)—Enter the depreciation deductions that would have been allowable on the section 179 amount from the year it was placed in service through the current year. See Publication 946, How To Depreciate Property, for more details.

Column (b)—Enter the depreciation that would have been allowable if the property had not been used more than 50% in a qualified business. Figure the depreciation from the year it was placed in service until the current year. See Publication 463 and Publication 946 for more details.

Line 36.—Subtract line 35 from line 34 and enter the recapture amount as “other income” on the same form or schedule on which you took the deduction. For example, if you took the deduction on federal Schedule C (Form 1040), report the recapture amount as other income on federal Schedule C (Form 1040). See instructions for Form N-11.

Be sure to increase the basis of the property by the recapture amount.