

## Instructions for Form 4797

### Sales of Business Property (Also Involuntary Conversions and Recapture Amounts Under Sections 179 and 280F(b)(2))

Section references are to the Internal Revenue Code unless otherwise noted.

## General Instructions

### Purpose of Form

Use Form 4797 to report:

- The sale or exchange of:
  1. Property used in your trade or business;
  2. Depreciable and amortizable property;
  3. Oil, gas, geothermal, or other mineral properties; and
  4. 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 recapture of section 179 expense deductions for partners and S corporation shareholders from property dispositions by partnerships and S corporations.
- The computation of recapture amounts under sections 179 and 280F(b)(2) when the business use of section 179 or listed property decreases to 50% or less.

### Other Forms To Use

- Use **Form 4684**, Casualties and Thefts, to report involuntary conversions from casualties and thefts.
- Use **Form 8824**, Like-Kind Exchanges, for each exchange of qualifying business or investment

property for property of a like kind. For exchanges of property used in a trade or business (and other noncapital assets), enter the gain or (loss) from Form 8824, if any, on line 5 or 16.

- If you sold property on which you claimed investment credit, see **Form 4255**, Recapture of Investment Credit, to find out if you must recapture some or all of the credit.

## Special Rules

### 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 **Form 6198**, At-Risk Limitations. Also, see **Pub. 925**, Passive Activity and At-Risk Rules. Losses from passive activities are first subject to the at-risk rules and then to the passive activity rules.

### Depreciable Property and Other Property Disposed of in the Same Transaction

If you disposed of both depreciable property and other property (for example, a building and land) in the same transaction and realized a gain, you must allocate the amount realized between the two types of property based on their respective fair market values (FMVs) to figure the part of the gain to be recaptured as ordinary income because of depreciation. The disposition of each type of property is reported separately in the appropriate part of Form 4797 (for example, for property held more than 1 year, report the sale of a building in Part III and land in Part I).

### Disposition of Assets That Constitute a Trade or Business

If you sell a group of assets that makes up a trade or business, both you and the buyer generally must allocate the total sales price to the assets

**Where To Make First Entry for Certain Items Reported on This Form**

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

transferred and file **Form 8594**, Asset Acquisition Statement.

## Installment Sales

If you sold property at a gain and you will receive a payment in a tax year after the year of sale, you generally must report the sale on the installment method unless you elect not to do so.

Use **Form 6252**, Installment Sale Income, to report the sale on the installment method. Also use Form 6252 to report any payment received during your 2002 tax year from a sale made in an earlier year that you reported on the installment method.

To elect out of the installment method, report the full amount of the gain on a timely filed return (including extensions). If you timely filed your tax return without making the election, you can still make the election by filing an amended return within 6 months of the due date of your return (excluding extensions). Write "Filed pursuant to section 301.9100-2" at the top of the amended return.

See **Pub. 537**, Installment Sales, for more details.

## Traders Who Made a Mark-To-Market Election

A trader in securities or commodities may elect under section 475(f) to use the mark-to-market method to account for securities or commodities held in connection with a trading business. Under this method of accounting, any security or commodity held at the end of the tax year is treated as sold (and reacquired) at its FMV on the last business day of that year.

Unless you are a new taxpayer, the election must be made by the due date (**not** including extensions) of the tax return for the year **prior to** the year for which the election becomes effective.

If you are a trader in securities or commodities with a mark-to-market election under section 475(f) in effect for the tax year, the following special rules apply.

- Gains and losses from all securities or commodities held in connection with your trading business (including those marked to market) are treated as ordinary income and losses, instead of capital gains and losses. As a result, the lower capital gain tax rates and the limitation on capital losses do not apply.
- The gain or loss from each security or commodity held in connection with your trading business (including those marked to market) is reported on Form 4797, line 10 (see the instructions for line 10 on page 4).

- The wash sale rule does not apply to securities or commodities held in connection with your trading business.

For more details on the mark-to-market election and how to make it, see Pub. 550; sections 475(e) and 475(f); and Rev. Proc. 99-17, 1999-1 C.B. 503. You can find Rev. Proc. 99-17 on page 52 of Internal Revenue Bulletin 1999-7 at [www.irs.gov/pub/irs-irbs/irb99-07.pdf](http://www.irs.gov/pub/irs-irbs/irb99-07.pdf).

## Involuntary Conversion of Property

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

## Exclusion of Gain on Sale of a Home Used for Business

If the property sold was used for business or to produce rental income and also was owned and used as your home during the 5-year period ending on the date of the sale, you may be able to exclude part or all of the gain figured on Form 4797. For details on the exclusion (including how to figure the amount of the exclusion), see **Pub. 523**, Selling Your Home.

If the property was held more than 1 year, complete Part III to figure the amount of the gain. **Do not** take the exclusion into account when figuring the gain on line 24. If line 22 includes depreciation for periods after May 6, 1997, you **cannot** exclude gain to the extent of that depreciation. On line 2 of Form 4797, write "Section 121 exclusion," and enter the amount of the exclusion as a (loss) in column (g).

If the property was held for 1 year or less, report the sale and the amount of the exclusion, if any, in a similar manner on line 10 of Form 4797.

## 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 **Form 8582**, 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 Form 4797.

You cannot claim unused passive activity credits when you dispose of your interest in an activity. However, if you dispose of your entire interest in an activity, you may elect to increase the basis of the credit property by the original basis reduction of the property to the extent that the credit has not been allowed because of the passive

activity rules. Make the election on **Form 8582-CR**, Passive Activity Credit Limitations, or Form 8810. No basis adjustment may be elected on a partial disposition of your interest in an activity.

## 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 Form 4797, enter the recapture amount taxed as ordinary income on line 22 of Form 4797. See **Pub. 225**, Farmer's Tax Guide, for details.

## Section 197(f)(9)(B)(ii) Election

If you elected under section 197(f)(9)(B)(ii) to recognize gain on the disposition of a section 197 intangible and to pay a tax on that gain at the highest tax rate, include the additional tax on Form 1040, line 42 (or the appropriate line of other income tax returns). On the dotted line next to that line, enter "197" and the amount. The additional tax is the amount that, when added to any other income tax on the gain, equals the gain multiplied by the highest tax rate.

## Rollover of Gain From Empowerment Zone Assets

If you sold a qualified empowerment zone asset that you held for more than 1 year, you may be able to elect to postpone part or all of the gain that you would otherwise include on Form 4797, Part I. If you make the election, the gain on the sale generally is recognized only to the extent, if any, that the amount realized on the sale exceeds the cost of qualified empowerment zone assets (replacement property) you purchased during the 60-day period beginning on the date of the sale. The following rules apply.

- No portion of the cost of the replacement property may be taken into account to the extent the cost is taken into account to exclude gain on a different empowerment zone asset.
- The replacement property must qualify as an empowerment zone asset with respect to the same empowerment zone as the asset sold.
- You must reduce the basis of the replacement property by the amount of postponed gain.
- This election does not apply to any gain **(a)** treated as ordinary income or **(b)** attributable to real property, or an intangible asset, which is not an

integral part of an enterprise zone business.

- The District of Columbia enterprise zone is not treated as an empowerment zone for this purpose.
- The election is irrevocable without IRS consent.

See **Pub. 954**, for the definition of empowerment zone and enterprise zone business. You can find out if your business is located within an empowerment zone by using the RC/EZ/EC Address Locator at <http://hud.esri.com/locateservices/ezec>.

#### Qualified empowerment zone assets are:

- Tangible property, if:
  1. You acquired the property after December 21, 2000,
  2. The original use of the property in the empowerment zone began with you, and
  3. Substantially all of the use of the property, during substantially all of the time that you held it, was in your enterprise zone business; **and**
- Stock in a domestic corporation or a capital or profits interest in a domestic partnership, if:
  1. You acquired the stock or partnership interest after December 21, 2000, solely in exchange for cash, from the corporation at its original issue (directly or through an underwriter) or from the partnership;
  2. The business was an enterprise zone business (or a new business being organized as an enterprise zone business) as of the time you acquired the stock or partnership interest; and
  3. The business qualified as an enterprise zone business during substantially all of the time during which you held the stock or partnership interest.

**How to report.** Report the entire gain realized from the sale as you otherwise would without regard to the election. On Form 4797, line 2, enter "Section 1397B Rollover" in column (a) and enter as a loss in column (g) the amount of gain included on Form 4797 that you are electing to postpone. If you are reporting the sale directly on Form 4797, line 2, use the line directly below the line on which you reported the sale.

See section 1397B for more details.

## Specific Instructions

To show losses, enclose figures in parentheses).

If you disposed of property you acquired by inheritance, enter "**INHERITED**" in column (b) instead of the date you acquired the property.

## Line 1

Enter on line 1 the total gross proceeds from:

- Sales or exchanges of real estate reported to you for 2002 on Form(s) 1099-S (or substitute statement) that you are including on line 2, 10, or 20 and
- Sales of securities or commodities reported to you for 2002 on Forms 1099-B (or substitute statements) that you are including on line 10 because you are a trader with a mark-to-market election under section 475(f) in effect for the tax year. See **Traders Who Made a Mark-To-Market Election** on page 2 and the instructions for line 10 on page 4.

## Part I

Use Part I to report section 1231 transactions that are not required to be reported in Part III. The following are section 1231 transactions.

- Sales or exchanges of real or depreciable property used in a trade or business and held for more than 1 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 domestic iron ore with a retained economic interest that is treated as a sale under section 631(c).
- Sales or exchanges of cattle and horses, regardless of age, used in a trade or business 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 and horses, regardless of age, used in a trade or business 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 1 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 conversions from fire, storm, shipwreck, or other casualty or from theft and the losses exceed the recognized gains from the conversions, **do not** include any gains or losses from such conversions 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); or
- 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.

## Line 8

Your net section 1231 gain on line 7 is treated as ordinary income to the extent of your "nonrecaptured section 1231 losses." Your nonrecaptured section 1231 losses are your net section 1231 losses deducted during the 5 preceding tax years that have not yet been applied against any net section 1231 gain to determine how much net section 1231 gain is treated as ordinary income under this rule.

**Example.** You had net section 1231 losses of \$4,000 and \$6,000 in 1997 and 1998, respectively, and net section 1231 gains of \$3,000 and \$2,000 in 2001 and 2002, respectively. The 2002 net section 1231 gain of \$2,000 is entered on line 7, and the nonrecaptured net section 1231 losses of \$7,000 (\$10,000 net section 1231 losses minus the \$3,000 that was applied against the 2001 net section 1231 gain) are entered on line 8. The entire \$2,000 net section 1231 gain on line 7 is treated as ordinary income and is entered on line 12 of Form 4797. For recordkeeping purposes, the \$4,000 loss from 1997 is all recaptured (\$3,000 in 2001 and \$1,000 in 2002), and you have \$5,000 of section 1231 losses from 1998 left to recapture (\$6,000 minus the \$1,000 recaptured this year).

## Figuring the Prior Year Losses

You had a net section 1231 loss if section 1231 losses exceeded section 1231 gains. Gains are included only to the extent taken into account in figuring gross income. Losses are included only to the extent taken into account in figuring taxable income except that the limitation on capital losses does not apply.

### Line 9

For recordkeeping purposes, if line 9 is zero, the amount on line 7 is the amount of net section 1231 loss recaptured in 2002. If line 9 is more than zero, you have recaptured in 2002 all 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 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, see **Pub. 541**, Partnerships.

### Line 10

Report other ordinary gains and losses, including gains and losses from property held 1 year or less, on this line.

### Securities or Commodities Held by a Trader Who Made a Mark-To-Market Election

Report on line 10 all gains and losses from sales and dispositions of securities or commodities held in connection with your trading business, including gains and losses from marking to market securities and commodities held at the end of the tax year (see **Traders Who Made a Mark-To-Market Election** on page 2). Attach to your tax return a statement, using the same format as line 10, showing the details of each transaction. Separately show and identify securities or commodities held and marked to market at the end of the year. On line 10, enter "Trader—see attached" in column (a) and the totals from the statement in columns (d), (f), and (g). Also, see the instructions for line 1 on page 3.

### Small Business Investment Company Stock

Report on line 10 ordinary losses from the sale or exchange (including worthlessness) of stock in a small business investment company operating under the Small Business

Investment Act of 1958. See section 1242.

### Section 1244 (Small Business) Stock

Individuals report ordinary losses from the sale or exchange (including worthlessness) of section 1244 (small business) stock on line 10.

To qualify as section 1244 stock, **all six** of the following requirements must be met.

**1.** You acquired the stock after June 30, 1958, upon original issuance of the shares from a domestic corporation (or the stock was acquired by a partnership in which you were a partner continuously from the date the stock was issued until the time of the loss).

**2.** If the stock was issued before November 7, 1978, it was issued under a written plan that met the requirements of Regulations section 1.1244(c)-1(f), and when that plan was adopted, the corporation was treated as a small business corporation under Regulations section 1.1244(c)-2(c).

**3.** If the stock was issued after November 6, 1978, the corporation was treated as a small business corporation at the time the stock was issued under Regulations section 1.1244(c)-2(b). To be treated as a small business corporation, the total amount of money and other property received by the corporation for its stock as a contribution to capital and paid-in surplus generally may not exceed \$1 million.

**4.** The stock was issued for money or other property (excluding stock or securities).

**5.** The corporation, for its 5 most recent tax years ending before the date of the loss, derived more than 50% of its gross receipts from sources **other than** royalties, rents, dividends, interest, annuities, and gains from sales and exchanges of stocks or securities. (If the corporation was in existence for at least 1 tax year but fewer than 5 tax years ending before the date of the loss, the 50% test applies for the tax years ending before that date. If the corporation was not in existence for at least 1 tax year ending before the date of the loss, the 50% test applies for the entire period ending before that date.) The 50% test does not apply if the corporation's deductions (other than the net operating loss and dividends-received deductions) exceeded its gross income during the applicable period. But this exception to the 50% test applies only if the corporation was largely an operating company within the 5 most recent tax years ending before the date of the loss

(or, if less, the entire period the corporation was in existence).

**6.** If the stock was issued before July 19, 1984, it must have been common stock.

The maximum amount that may be treated as an ordinary loss is \$50,000 (\$100,000 if married filing jointly). 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 FMV or **(b)** your stock basis increased because of contributions to capital or otherwise. See **Pub. 550**, Investment Income and Expenses, for more details. Report on Schedule D losses in excess of the maximum amount that may be treated as an ordinary loss (and all gains) from the sale or exchange of section 1244 stock.

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

### Line 17

Enter any recapture of section 179 expense deduction included on Schedule K-1 (Form 1065), line 25, or Schedule K-1 (Form 1120S), line 23, but only if it is due to a disposition. Include it only to the extent that you took a deduction for it in an earlier year. See the instructions for Part IV if you have section 179 recapture because the business use of the property decreased to 50% or less.

### Line 18b(1)

You must complete this line if there is a gain on Form 4797, line 3; a loss on Form 4797, line 11; **and** a loss on Form 4684, line 35, column (b)(ii). Enter on this line the **smaller** of the loss on Form 4797, line 11, or the loss on Form 4684, line 35, column (b)(ii). To figure which loss is smaller, treat both losses as positive numbers. Enter the part of the loss from income-producing property on Schedule A (Form 1040), line 27, and the part of the loss from property used as an employee on Schedule A (Form 1040), line 22.

## Part III

Generally, for property held 1 year or less, **do not** complete Part III; instead use Part II. For exceptions, see the chart on page 1.

Use Part III to figure recapture of depreciation and certain other items that must be reported as ordinary income on the disposition of property. Fill out lines 19 through 24 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 Pub. 544.

**Note:** *If the property was sold on the installment sale basis, see the Instructions for Form 6252 before completing Part III. Also, if you have both installment sales and noninstallment sales, you may want to use separate Forms 4797, Part III, for the installment sales and the noninstallment sales.*

## Line 20

The gross sales price includes money, the FMV 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 FMV.

## Line 21

Reduce the cost or other basis of the property by the amount of any diesel-powered highway vehicle credit, enhanced oil recovery credit, or disabled access credit.

However, **do not** reduce the cost or other basis on this line by any of the following amounts.

- Deductions allowed or allowable for depreciation (including the 30% special depreciation allowance), amortization, depletion, or preproductive expenses.
- The section 179 expense deduction.
- The commercial revitalization deduction.
- The downward basis adjustment under section 50(c) (or the corresponding provision of prior law).
- The deduction for qualified clean-fuel vehicle property or refueling property.
- Deductions claimed under section 190, 193, or 1253(d)(2) or (3) (as in effect before the enactment of P.L. 103-66).
- The basis reduction for the qualified electric vehicle credit.

Instead, include these amounts on line 22. They will be used to determine the property's adjusted basis on line 23.

## Line 22

For a taxpayer other than a partnership or an S corporation, complete the following steps to figure the amount to enter on line 22.

**Step 1. Add** the following amounts.

- Deductions allowed or allowable for depreciation (including the 30% special depreciation allowance), amortization, depletion, or preproductive expenses.
- The section 179 expense deduction.
- The commercial revitalization deduction.
- The downward basis adjustment under section 50(c) (or the corresponding provision of prior law).
- The deduction for qualified clean-fuel vehicle property or refueling property.
- Deductions claimed under section 190, 193, or 1253(d)(2) or (3) (as in effect before the enactment of P.L. 103-66).
- The basis reduction for the qualified electric vehicle credit.

**Step 2. From the Step 1 total, subtract** the following amounts.

- Any investment credit recapture amount if the basis of the property was reduced in the tax year the property was placed in service under section 50(c)(1) (or the corresponding provision of prior law). See section 50(c)(2) (or the corresponding provision of prior law).
- 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 decreased to 50% or less.
- 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.
- Any basis increase for qualified electric vehicle credit recapture.

You may have to include depreciation allowed or allowable on another asset (and refigure the basis amount for line 21) if you use its adjusted basis in determining the adjusted basis of the property described on line 19. An example is property acquired by a trade-in. See Regulations section 1.1245-2(a)(4).

Partnerships enter the deductions allowed or allowable for depreciation, amortization, or depletion on line 22. Enter the section 179 expense deduction on Form 1065, Schedule K, line 24 (unless the partnership is an electing large partnership). Partnerships must make the basis adjustment required under section 50(c) (or the corresponding provision of prior law). Partners adjust the basis of their interest in the partnership to take into account the basis adjustments made at the partnership level.

S corporations enter the deductions allowed or allowable for depreciation, amortization, or depletion on line 22.

Enter the section 179 expense deduction on Form 1120S, Schedule K, line 21, but only if the corporation disposed of property acquired in a tax year beginning after 1982. S corporations must make the basis adjustment required under section 50(c) (or the corresponding provision of prior law). Shareholders adjust the basis in their stock in the corporation to take into account the basis adjustments made at the S corporation level under section 50(c) (or the corresponding provision of prior law).

## Line 23

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

## Line 25

Section 1245 property is property that is depreciable (or amortizable under section 185 (repealed), 197, or 1253(d)(2) or (3) (as in effect before the enactment of P.L. 103-66)) and is one of the following.

- Personal property.
- Elevators and escalators placed in service before 1987.
- Real property (other than property described under tangible real property below) subject to amortization or deductions under section 169, 179, 179A, 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, or extraction or of furnishing transportation, communications, or certain public utility services.

2. As a research facility in these activities.

3. For the bulk storage of fungible commodities (including commodities in a liquid or gaseous state) used in these activities.

- A single purpose agricultural or horticultural structure (as defined in section 168(i)(13)).
- A storage facility (not including a building or its structural components) used in connection with the distribution of petroleum or any primary petroleum product.
- Any railroad grading or tunnel bore (as defined in section 168(e)(4)).

See section 1245(b) for exceptions and limits involving the following.

- Gifts.
- Transfers at death.
- Certain tax-free transactions.
- Certain like-kind exchanges, involuntary conversions, etc.

- Exchanges to comply with SEC orders.
- Property distributed by a partnership to a partner.
- Transfers to tax-exempt organizations where the property will be used in an unrelated business.
- Timber property.

See the following sections for special rules.

- Section 1245(a)(4) for player contracts and section 1056(c) for information required from the transferor of a franchise of any sports enterprise if the sale or exchange involves the transfer of player contracts.
- Section 1245(a)(5) (repealed) for property placed in service before 1987, if only a portion of a building is section 1245 recovery property.
- Section 1245(a)(6) (repealed) for qualified leased property placed in service before 1987.

## Line 26

Section 1250 property is depreciable real property (other than section 1245 property). Section 1250 recapture applies if you used an accelerated depreciation method or you claimed the 30% special depreciation allowance or commercial revitalization deduction. Section 1250 recapture does not apply to dispositions of the following property placed in service after 1986 (or after July 31, 1986, if elected).

- 27.5-year (or 40-year, if elected) residential rental property (except for 27.5 year qualified New York Liberty Zone property acquired after September 10, 2001).
- 22-, 31.5-, or 39-year (or 40-year, if elected) nonresidential real property (except for 39-year qualified New York Liberty Zone property acquired after September 10, 2001, and property for which you elected to claim a commercial revitalization deduction).

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-, 18-, or 19-year real property and low-income housing that is residential rental property.
- 15-, 18-, or 19-year real property and low-income housing that is used mostly outside the United States.
- 15-, 18-, or 19-year real property and low-income housing for which a straight line election was made.
- Low-income rental housing described in clause (i), (ii), (iii), or (iv) of section 1250(a)(1)(B). See the instructions for line 26b.

See section 1250(d) for exceptions and limits involving the following.

- Gifts.
- Transfers at death.
- Certain tax-free transactions.
- Certain like-kind exchanges, involuntary conversions, etc.
- Exchanges to comply with SEC orders.
- Property distributed by a partnership to a partner.
- Disposition of qualified low-income housing.
- Transfers of property to tax-exempt organizations if the property will be used in an unrelated business.
- Dispositions of property as a result of foreclosure proceedings.

Special rules apply in the following cases.

- For additional depreciation attributable to rehabilitation expenditures, see section 1250(b)(4).
- If substantial improvements have been made, see section 1250(f).

## Line 26a

Enter the additional depreciation for the period after 1975. **Additional depreciation** is the excess of actual depreciation (including any 30% special depreciation allowance or commercial revitalization deduction) over depreciation figured using the straight line method. For this purpose, do not reduce the basis under section 50(c)(1) (or the corresponding provision of prior law) to figure straight line depreciation. Also, if you claimed a commercial revitalization deduction, figure straight-line depreciation using the property's applicable recovery period under section 168.

## Line 26b

Generally, use 100% as the percentage for this line. However, for low-income rental housing described in clause (i), (ii), (iii), or (iv) of section 1250(a)(1)(B), see that section for the percentage to use.

## Line 26d

Enter the additional depreciation after 1969 and before 1976. If straight line depreciation exceeds the actual depreciation for the period after 1975, reduce line 26d by the excess. **Do not** enter less than zero on line 26d.

## Line 26f

The amount the corporation treats as ordinary income under section 291 is 20% of the excess, if any, of the amount that would be treated as ordinary income if such property were section 1245 property, over the amount treated as ordinary income under section 1250. If the corporation used the straight line method of depreciation, the ordinary income under section 291

is 20% of the amount figured under section 1245.

## Line 27

Partnerships (other than electing large partnerships) skip this section. Partners must 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 under sections 175 (soil and water conservation) and 182 (land clearing) (repealed). Skip line 27 if you dispose of such farmland during the 10th or later year after you acquired it.

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

Enter 100% of line 27a on line 27b except as follows.

- 80% if the farmland was disposed of within the 6th year after it was acquired.
- 60% if disposed of within the 7th year.
- 40% if disposed of within the 8th year.
- 20% if disposed of within the 9th year.

## Line 28

If you had a gain on the disposition of oil, gas, or geothermal property placed in service before 1987, treat all or part of the gain as ordinary income. Include on line 22 of Form 4797 any depletion allowed (or allowable) in determining the adjusted basis of the property.

If you had a gain on the disposition of oil, gas, geothermal, or other mineral properties (section 1254 property) placed in service after 1986, you must recapture all expenses that were deducted as intangible drilling costs, depletion, mine 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.

**Note:** *A corporation that is an integrated oil company completes line 28a by treating amounts amortized under section 291(b)(2) as deductions under section 263(c).*

## Line 28a

If the property was placed in service before 1987, enter the total expenses after 1975 that:

- Were deducted by the taxpayer or any other person as intangible drilling and development costs under section 263(c) (except previously expensed mining costs that were included in income upon reaching the producing state) 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 expenses that:

- Were deducted under section 263, 616, or 617 by the taxpayer or any other person; and
- 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 29a

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.

## Line 29b

If any part of the gain shown on line 24 is treated as ordinary income under sections 1231 through 1254 (for example, section 1252), enter the smaller of (a) line 24 reduced by the part of the gain treated as ordinary income under the other provision or (b) line 29a.

## Part IV

### Column (a)

If you took a section 179 expense deduction 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 decreased to 50% or less this year, complete column (a) of lines 33 through 35 to figure the recapture amount.

### Column (b)

If you have listed property that you placed in service in a prior year and the business use decreased to 50% or less this year, figure the amount to be recaptured under section 280F(b)(2). Complete column (b), lines 33 through 35. See **Pub. 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, figure the recapture amounts on a separate statement and attach it to your tax return.*

### Line 33

In column (a), enter the section 179 expense deduction you claimed when the property was placed in service. In column (b), enter the depreciation allowable on the property in prior tax years (plus any section 179 expense deduction you claimed when the property was placed in service).

### Line 34

In column (a), enter the depreciation that would have been allowable on the section 179 amount from the year the property was placed in service through (and including) the current year. See **Pub. 946**, How To Depreciate Property.

In 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 up to (but not including) the current year. See **Pub. 463** and **Pub. 946**.

### Line 35

Subtract line 34 from line 33 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 Schedule C (Form 1040), report the recapture

amount as other income on Schedule C (Form 1040).

**Note:** *If you filed Schedule C or F (Form 1040) and the property was used in both your trade or business and for the production of income, the portion of the recapture amount attributable to your trade or business is subject to self-employment tax. Allocate the amount on line 35 to the appropriate schedules.*

Be sure to increase your basis in the property by the recapture amount.

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### Paperwork Reduction Act Notice.

We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

<b>Recordkeeping</b> . . . . .	33 hr., 28 min.
<b>Learning about the law or the form</b> . . . . .	7 hr., 56 min.
<b>Preparing, copying, assembling, and sending the form to the IRS</b> . . . . .	8 hr., 50 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.

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