Form 4797 Sales of Business Property

After completing Schedule F (Form 1040) and Section B of Form 4684, Mr. Rosso fills in Form 4797 to report the sales of business property.

He prints his name, his wife's name, and his identifying number at the top of Form 4797.

Before he can complete Parts I and II, he must complete Part III to report the sale of certain depreciable property.

Part III. Mr. Rosso sold three depreciable assets in 2011 at a gain. They consisted of a purchased dairy cow, #60, a truck, and a mower. He has information about their cost and depreciation in his records. Only the dairy cow has a basis from the Depreciation Worksheet. The truck and mower have been fully depreciated.

He sold the cow on October 28, the truck on July 9, and the mower on August 12. Since the gains on these items were gains from dispositions of depreciable personal property he must determine the part of the gain for each item that was ordinary income.

He enters the description of each item on lines 19A through 19C and relates the corresponding property columns to the properties on those lines. He completes lines 20 through 25(b) for each disposition.

Gain from dispositions. The gain on each item is shown on line 24. His gain on the sale of the cow is $270 (Property A). His gain on the sale of the truck is $700 (Property B). His gain on the sale of the mower is $70 (Property C). The gain on each item is entered in the appropriate property column on line 25(b). If the gain was greater than the depreciation allowed, part of the gain would be a capital gain. That is not the case for Mr. Rosso.

Summary of Part III gains. On line 30, he enters $1,040, the total of property columns A through C, line 24. On line 31, he enters $1,040, the total of property columns A through C, line 25(b). This amount is the gain that is ordinary income. He also enters this amount on Part II, line 13.

He subtracts line 31 from line 30 and enters -0- on line 32. He has no long-term capital gain on the dispositions. All his gain is ordinary income.

Part I. All the animals in Part I met the required holding period.

Mr. Rosso sold at a gain several cows he had raised and used for dairy purposes. The total sale price for these cows was $13,160. His selling expense was $325 for these cows, which he shows on line 2(f). He enters the gain from the sale ($12,835) on line 2(g). He also enters on line 2(g) the loss from the sale of a purchased bull. Because he sold the purchased bull at a loss, he entered it in Part I instead of Part III. The bull was purchased on July 15, 2007 and sold on February 3, 2011. The bull cost $2,112 and Mr. Rosso had claimed $1,750 of depreciation prior to the sale. The sale price was $303 which created a loss of $59 on the bull.

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He combines the gains and loss on line 2(g) and enters $12,776 on line 7(g). He has no nonrecaptured net section 1231 losses from prior years, so he does not fill in lines 8, 9, and 12. If he had nonrecaptured section 1231 losses, part or all of the gain on line 7 would be ordinary income and entered on line 12. Based on the instructions for line 7, he enters $12,776 as a long-term capital gain on Schedule D (Form 1040), line 11(h).

Part II. Mr. Rosso enters on line 10 the $250 gain from the sale of a raised dairy heifer held less than 24 months for breeding purposes. He had previously entered the $1,040 gain from Part III, line 31, on line 13 and the $115 loss from Form 4684 on line 14. He totals lines 10 through 16 and enters $1,175 on line 17. He carries the gain from line 17 to line 18b and shows it as ordinary income on Form 1040, line 14.

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