

# Schedule D-IS Instructions

**Note:** If showing a loss, be sure to mark over the “X” in the box to the left.

## General Instructions

**Installment Sales:** An installment sale is a disposition of property in which at least one payment is received by the seller after the close of a taxable year in which the transaction occurs. I.R.C. § 453. Under the installment method, tax is paid on each installment in the year the installment is received.

Typically, installment sale gains are reported on Schedule D, Capital Gains and Losses. However, if you are reporting capital gains on installment sales that occurred between January 1, 1996 through December 31, 2002, you must file Schedule D-IS, Installment Sales, not Schedule D. Include on Schedule D-IS any capital gains or losses otherwise reportable on Schedule D. Also, be sure to enclose U.S. Schedule 6252, Installment Sale Income, for each installment sale.

For further information regarding installment sales, see AP 201, Installment Sales and TIR 04-28, Changes to Massachusetts Installment Sale Elections. You may also contact the Installment Sales Unit at (617) 887-6950.

**Tax rates for transactions completed between January 1, 1996 and December 31, 2002.** Transactions completed between January 1, 1996 and December 31, 2002 which have been approved by DOR for use of the installment method must be added together and taxed as follows. Gains on the sale of capital assets (excluding collectibles) held for more than one year but not more than two years are taxed as 5% income (Schedule D-IS, Part 2, column A), those held for more than two years but not more than three years are taxed as 4% income (Schedule D-IS, Part 2, column B), those held for more than three years but not more than four years are taxed as 3% income (Schedule D-IS, Part 2, column C), those held for more than four years but not more than five years are taxed as 2% income (Schedule D-IS, Part 2, column D), those held for more than five years but not more than six years are taxed as 1% income (Schedule D-IS, Part 2, column E), and those held for more than six years are taxed as 0% income (Schedule D-IS, Part 2, column F). For property purchased on or prior to January 1, 1995, the holding period is measured from January 1, 1995 to the date of sale. For property purchased after January 1, 1995, the holding period is measured from the date of purchase to the date of sale. This holding period remains the same in each succeeding year over the life of the sale.

**Tax rate for transactions completed on or after January 1, 2003.** In place of the six categories of gain based on six defined holding periods and taxed at six different rates (ranging from 5% down to 0%), legislation provides for a single category of long-term capital gains consisting of any gains from the sale or exchange of capital assets (except collectibles) held for more than one year. Effective for tax years beginning on or after January 1, 2003, the legislation changes the multiple tax rates for long-term capital gains (except on collectibles) to the single tax rate of 5.3%, but only for transactions completed on or after January 1, 2003.

## Line Instructions

### Schedule D-IS, Part 1. Long-Term Capital Gains and Losses, Excluding Collectibles

#### Line 1. Long-Term Capital Gains and Losses

Enter the gain or loss included in U.S. Schedule D, line 8a and 8b, column h.

#### Line 2. Long-Term Capital Gains and Losses

Enter the gain or loss included in U.S. Schedule D, line 9, column h.

#### Line 3. Long-Term Capital Gains and Losses

Enter the gain or loss included in U.S. Schedule D, line 10, column h.

#### Line 4. Gain from Sales of Business Property and Other Long-Term Gains and Losses

Enter the gain or loss included in U.S. Schedule D, line 11, column h.

#### Line 5. Net Long-Term Gain or Loss from Partnerships, S Corporations, Estates and Trusts

Enter the gain or loss included in U.S. Schedule D, line 12, column h.

#### Line 6. Capital Gain Distributions

If you did not file U.S. Schedule D, enter the capital gain distributions reported to you by a mutual fund or real estate investment trust included in the amount from U.S. Form 1040, line 7 or 1040-SR, line 7. If you did file a U.S. Schedule D, enter the capital gain distributions reported to you by a mutual fund or real estate investment trust included in U.S. Schedule D, line 13, column h.

#### Line 7. Massachusetts Long-Term Capital Gains and Losses Included in U.S. Form 4797, Part II

Enter amounts included in U.S. Form 4797, Part II treated as capital gains or losses for Massachusetts purposes (not included in lines 1 through 6 above). These include ordinary gains from the sale of Section 1231 property, recapture amounts under Sections 1245, 1250 and 1255, Section 1244 losses and the loss on the sale, exchange or involuntary conversion of property used in a trade or business.

#### Line 8. Carryover Losses from Previous Years

If you have a carryover loss from a prior year, enter in line 8 the total amount of carryover losses from your 2022 Schedule D, line 23.

#### Line 9. Subtotal Long-Term Capital Gains and Losses

Combine lines 1 through 8 and enter the result in line 9.

#### Line 10a. Massachusetts Differences

Enter any differences between the gains or losses reportable for Massachusetts tax purposes and the U.S. gains or losses reported in Massachusetts Schedule D, lines 1 through 8 and on line 10c. Differences include:

- ▶ Pre-1996 installment sales classified as ordinary income for Massachusetts purposes;
- ▶ Long-term capital gains or losses from transactions reported as installment sales for U.S. income tax purposes but not for Massachusetts (Note: Income and gain transactions should be reported as positive and loss transactions should be reported as negative in line 10a.); and
- ▶ Massachusetts has adopted basis adjustment rules to take into account differences between Massachusetts and federal tax laws

(Note: Massachusetts basis adjustment increases should be reported as negative and Massachusetts basis adjustment decreases should be reported as positive in line 10a).

### **Line 10c. Total Massachusetts Adjustments**

Enter the amount from line 10a.

### **Line 11. Massachusetts Capital Gains and Losses**

Exclude/subtract line 10c from line 9 and enter the result in line 11.

▶ If line 9 is positive and line 10c is positive, subtract line 10c from line 9.

▶ If line 9 is positive and line 10c is negative, add line 10c as a positive value to line 9

▶ If line 9 is negative and line 10c is negative, subtract line 10c from line 9.

▶ If line 9 is negative and line 10c is positive, add line 10c as a negative value to line 9.

### **Line 12. Long-Term Gains on Collectibles and Pre-1996 Installment Sales**

Enter in line 12 long-term gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes that are included in line 11. Long-term gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes should be entered on Schedule B, line 11. Collectibles are defined as any capital asset that is a collectible within the meaning of I.R.C. § 408(m), as amended and in effect for the taxable year, including works of art, rugs, antiques, metals, gems, stamps, alcoholic beverages, certain coins, and any other items treated as collectibles for federal tax purposes.

### **Line 13. Long-term capital gain on installment sales from January 1, 1996 through December 31, 2002**

Enter in line 13 the amount of long-term gain on installment sales that occurred from January 1, 1996 through December 31, 2002 that are included in line 11.

### **Line 14. Subtotal**

Subtract the total of lines 12 and 13 from line 11 and enter the result in line 14.

If Schedule D-IS, Part 1, line 14 is "0" or greater, omit Schedule D-IS, Part 1, line 15 and enter the amount from Schedule D-IS, Part 1, line 14 in line 16.

If Schedule D-IS, Part 1, line 14 is a loss and any amount in Schedule D-IS, Part 2, line 1, columns A through F is greater than "0," the 5.3% loss reported on Schedule D-IS, Part 1, line 14 can be applied against net gains within other holding periods reported on Schedule D-IS, Part 2, line 1, columns A through F, beginning with the highest tax rate and applying any remaining loss against the next highest tax rate. For example, a 5.3% loss is first applied to 5% gains, any remaining loss is applied to 4% gains, any remaining loss is applied against 3% gains, any remaining loss is applied against 2% gains, any loss remaining is applied against 1% gains, then any remaining loss is applied against 0% gains. Report such losses in Schedule D-IS, Part 2, line 2, columns A through F.

**Note:** The amount entered in Schedule D-IS, Part 2, line 2, columns A through F, considered as a positive amount, cannot exceed the amount entered in Schedule D-IS, Part 2, line 1, columns A through F. Taxpayers completing line 14c of Form 1-NR/PY should enter the total of Schedule D-IS, line 14 and Schedule D-IS, Part 2, lines 3a through 3f. Not less than "0."

### **Line 15. Long-term Capital Losses Applied Against Long-Term Capital Gains**

Enter as a positive amount the total of long-term capital losses applied against installment sales from Schedule D-IS, Part 2, line 2, columns A through F.

### **Line 16. Subtotal**

Combine line 14 and 15. If Schedule D-IS, Part 1, line 16 is a loss and Schedule B, line 21 is "0" or less, omit Schedule D-IS, Part 1, lines 17 through 19, enter the amount from Schedule D-IS, Part 1, line 16 in line 20, omit Schedule D-IS, Part 1, lines 21 through 24 and Schedule D-IS, Part 3, line 25 and include the amount from Schedule D-IS, Part 1, line 20 in Schedule D-IS, Part 3, line 26.

If Schedule D-IS, Part 1, line 16 is a gain and Schedule B, line 21 is a loss, go to Schedule D-IS, Part 1, line 17.

If Schedule D-IS, Part 1, line 16 is a loss and Schedule B, line 24 is a positive amount, go to Schedule D-IS, Part 1, line 17.

If Schedule D-IS, Part 1, line 16 is a gain, and Schedule B, line 24 is "0" or greater, omit Schedule D-IS, Part 1, lines 17 through 19 and enter the amount from Schedule D-IS, Part 1, line 16 in Schedule D-IS, line 20.

### **Line 17. Capital Losses Applied Against Capital Gains**

If Schedule D-IS, Part 1, line 16 is a positive amount and Schedule B, line 21 is a loss, enter the smaller of Schedule D-IS, Part 1, line 16 or Schedule B, line 21 (considered as a positive amount) in Schedule D-IS, Part 1, line 17 and in Schedule B, line 22.

If Schedule D-IS, Part 1, line 16 is a loss and Schedule B, line 24 is a positive amount, enter the smaller of Schedule D-IS, Part 1, line 16 (considered as a positive amount) or Schedule B, line 24 in Schedule D-IS, Part 1, line 17 and in Schedule B, line 25.

### **Line 18. Subtotal**

If line 16 is greater than "0," subtract line 17 from line 16. If line 16 is less than "0," combine lines 16 and 17.

If Schedule D-IS, Part 1, line 18 is a loss and Schedule B, line 24 is "0" or greater and Schedule B, line 31 is a positive amount, go to Schedule D-IS, line 19.

If Schedule D-IS, Part 1, line 18 is a loss, and Schedule B, line 21 is "0" or less, omit Schedule D-IS, Part 1, line 19, enter the amount from Schedule D-IS, Part 1, line 18 in Schedule D-IS, Part 1, line 20, omit Schedule D-IS, Part 1, lines 21 through 24 and Schedule D-IS, Part 3, line 27 and include the amount from Schedule D-IS, Part 1, line 20 in Schedule D-IS, Part 3, line 28.

### **Line 19. Long-Term Capital Losses Applied Against Interest and Dividends**

If Schedule D-IS, Part 1, line 18 is a loss, and Schedule B, line 24 is "0" or greater and Schedule B, line 31 is a positive amount, complete a pro-forma version of the Long-Term Capital Losses Applied Against Interest and Dividends Worksheet for Schedule B, Line 32 and Schedule D, Line 16 found in the 2023 Form 1 Instructions booklet.

### **Line 20. Subtotal**

Combine line 18 and line 19. If Schedule D-IS, line 20 is "0," enter "0" in lines 21 through 26 and omit Schedule D-IS, Part 3, lines 26 through 28. If Schedule D-IS, Part 1, line 20 is a loss, omit lines 21 through 26 and Schedule D-IS, Part 3, lines 26 and 27 and enter the amount from line 20 in Schedule D-IS, Part 3, line 28.

## **Line 21. Allowable Deductions From Your Trade or Business**

Generally, taxpayers may not use excess 5.0% trade or business deductions to offset other income. However, where the taxpayer files a Massachusetts Schedule C or Schedule E, Massachusetts law allows such offsets if the following requirements are met: the excess 5.0% deductions must be adjusted gross income deductions allowed under MGL Ch. 62, sec. 2(d); and these excess deductions may only be used to offset other income which is effectively connected with the active conduct of a trade or business or any other income allowed under IRC, sec. 469(d)(1)(B) to offset losses from passive activities. Enclose Schedule C-2 with your return. Enter in line 21 the appropriate amount from Schedule C-2.

**Note:** This deduction is only allowed for taxpayers filing either Form 1, Form 1-NR/Y or Form 2. Taxpayers filing Form 3M are NOT eligible for this deduction.

## **Line 22. Subtotal**

Subtract line 21 from line 20 and enter the result in line 22. Not less than "0."

**Note:** Taxpayers completing line 6 of the Massachusetts AGI worksheet or Schedule NTS-L-NR/PY should enter the total of Schedule D-IS, Part 1, line 22 and Part 2, line 7, columns A through F. Not less than "0."

## **Line 23. Excess Exemptions**

Complete a pro-forma version of the Excess Exemption Worksheet found in the 2023 Form 1 Instructions booklet.

**Note:** This deduction is only allowed for taxpayers filing either Form 1 or Form 1-NR/Y. Taxpayers filing Form 2 or 3M are NOT eligible for this deduction.

## **Line 24. Taxable Long-Term Capital Gains**

Subtract line 23 from line 22 and enter the result in line 24. Not less than "0." Also enter this amount on Schedule D-IS, Part 3, line 26, column 1.

## **Lower Capital Gains Tax Rate for Gains from the Sale of Stock In Certain Massachusetts-Based Start-Up Corporations**

Gains derived from the sale of investments which meet certain requirements are taxed at a rate of 3% instead of 5.0%. In order to qualify for the 3% rate, investments must have been made within five years of the corporation's date of incorporation and must be in stock that generally satisfies the definition of qualified small business stock under IRC § 1202 (c), other than the requirement that the stock be stock of a C corporation. In addition, the stock must be held for three years or more and the investments must be in a corporation which:

- ▶ Is domiciled in Massachusetts;
- ▶ Is incorporated on or after January 1, 2011;
- ▶ Has less than \$50 million in assets at the time of investment; and
- ▶ Complies with applicable portions of the active business requirements of § 1202 of the IRC, i.e., §§ 1202 (e)(1), (e)(2), (e)(5), and (e)(6).

To be eligible as qualified small business stock under IRC § 1202(c), the stock must be acquired by the taxpayer at its original issue (directly or through an underwriter) in exchange for money, property, or as compensation for services provided to the corporation. During substantially all of the taxpayer's holding period, at least 80 percent of the value of the corporation's assets must be used in the active conduct of one or more qualified businesses.

**Note:** If you are reporting a sale of stock in a certain Massachusetts-based start-up corporation(s), do not file Schedule D. Instead,

you must report that gain(s) on Schedule D-IS, Installment Sales or qualified small business stock gains.

## **Schedule D-IS, Part 2. Long-Term Capital Gains and Losses On Installment Sales from January 1, 1996 Through December 31, 2002**

### **Line 1 Long-Term Capital Gains and Losses**

Enter in column A the gain from the installment sale of assets held for more than one year but not more than two years occurring from January 1, 1996 through December 31, 2002. Enter in column B the gain from the installment sale of assets held more than two years but not more than three years occurring from January 1, 1996 through December 31, 2002. Enter in column C the gain from the installment sale of assets held more than three years but not more than four years occurring from January 1, 1996 through December 31, 2002. Enter in column D the gain from the installment sale of assets held more than four years but not more than five years occurring from January 1, 1996 through December 31, 2002. Enter in column E the gain from the installment sale of assets held more than five years but not more than six years occurring from January 1, 1996 through December 31, 2002. Enter in column F the gain from the installment sale of assets held more than six years occurring from January 1, 1996 through December 31, 2002.

### **Line 2. Long-Term Capital Losses Applied Against Long-Term Installment Sales**

If Schedule D-IS, Part 1, line 14 is a loss and any amount in Schedule D-IS, Part 2, line 1, columns A through F is greater than "0," the 5.0% loss reported on Schedule D-IS, Part 1, line 14 can be applied against net gains within other holding periods reported on Schedule D-IS, Part 2, line 1, columns A through F, beginning with the highest tax rate and applying any remaining loss against the next highest tax rate. For example, a 5.0% loss is first applied to 5% gains, any remaining loss is applied to 4% gains, any remaining loss is applied against 3% gains, any remaining loss is applied against 2% gains, any loss remaining is applied against 1% gains, then any remaining loss is applied against 0% gains. Report such losses in Schedule D-IS, Part 2, line 2, columns A through F.

**Note:** The amount entered in Schedule D-IS, Part 2, line 2, columns A through F, considered as a positive amount, cannot exceed the amount entered in Schedule D-IS, Part 2, line 1, columns A through F.

### **Line 3. Subtotal**

Combine line 1, column A with line 2, column A and enter the result in line 3, column A. Not less than "0." Combine line 1, column B with line 2, column B and enter the result in line 3, column B. Not less than "0." Combine line 1, column C with line 2, column C and enter the result in line 3, column C. Not less than "0." Combine line 1, column D with line 2, column D and enter the result in line 3, column D. Not less than "0." Combine line 1, column E with line 2, column E and enter the result in line 3, column E. Not less than "0." Combine line 1, column F with line 2, column F and enter the result in line 3, column F. Not less than "0."

**Note:** Taxpayers completing line 14c of Form 1-NR/PY should enter the total of Schedule D-IS, line 14 and Schedule D-IS, Part 2, lines 3a through 3f. Not less than "0."

### **Line 4. Short-Term Capital Losses Applied Against Long-Term Installment Sales**

If any amount in Schedule D-IS, Part 2, line 3, columns A through F is a positive amount and Schedule B, line 21 is a loss, the loss reported on Schedule B, line 21 can be applied against net gains within other



holding periods reported on Schedule D-IS, Part 2, line 3, columns A through F, beginning with the highest tax rate and applying any remaining loss against the next highest tax rate. For example, a loss reported on Schedule B, line 21 is first applied to 5% gains, any remaining loss is applied to 4% gains, any remaining loss is applied against 3% gains, any remaining loss is applied against 2% gains, any loss remaining is applied against 1% gains, then any remaining loss is applied against 0% gains. Enter all losses as positive amounts in Schedule D-IS, Part 2, line 4, columns A through F.

**Note:** The amount entered in Schedule D-IS, Part 2, line 4, columns A through F cannot exceed the amount entered in Schedule D-IS, Part 2, line 3, columns A through F. Also, enter the total of Schedule D-IS, Part 2, line 4, columns A through F in Schedule B, line 22.

### **Line 5. Subtotal**

Subtract line 4 from line 3. Not less than "0."

### **Line 6. Allowable Deductions From Your Trade or Business**

Generally, taxpayers may not use excess 5.3% trade or business deductions to offset other income. However, where the taxpayer files a Massachusetts Schedule C or Schedule E, Massachusetts law allows such offsets if the following requirements are met: the excess 5.3% deductions must be adjusted gross income deductions allowed under MGL Ch. 62, sec. 2(d); and these excess deductions may only be used to offset other income which is effectively connected with the active conduct of a trade of business or any other income allowed under IRC, sec. 469(d)(1)(B) to offset losses from passive activities. Enclose Schedule C-2 with your return. Enter in line 6 the appropriate amount from Schedule C-2.

**Note:** This deduction is only allowed for taxpayers filing either Form 1, Form 1-NR/PY or Form 2. Taxpayer filings Form 3M are NOT eligible for this deduction.

### **Part 2.**

#### **Line 7. Subtotal**

Subtract line 6 from line 5. Not less than "0."

**Note:** Taxpayers completing line 6 of the Massachusetts AGI worksheet or Schedule NTS-L-NR/PY should enter the total of Schedule D-IS, Part 1, line 22 and Part 2, line 7, columns A through F. Not less than "0."

### **Line 8. Excess Exemptions**

Complete a pro-forma version of the Excess Exemption Worksheet found in the 2023 Form 1 Instructions booklet.

**Note:** This deduction is only allowed for taxpayers filing either Form 1 or Form 1-NR/PY. Taxpayer filing Forms 2 or 3M are NOT eligible for this deduction.

### **Line 9. Taxable Long-Term Capital Gains**

Subtract line 8 from line 7. Not less than "0." Enter result here and on Schedule D-IS, Part 3, line 26, column 1.

### **Part 3. Tax on Long-Term Capital Gains**

#### **Line 26. Taxable Long-Term Capital Gains.**

Enter in line 26A, column 1 the amount from Schedule D-IS, Part 1, line 26. Multiply the amount by .05 (5%) and enter the result in column 2. Enter in line 26B, column 1 the amount from Schedule D-IS, Part 1 line 25. Multiply the amount by .03 (3%) and enter the result in column 2. Enter in line 26C, column 1 the amount from Schedule D-IS, Part 2, line 9, column A. Multiply the amount by .05 (5%) and enter the result in column 2. Enter in line 26D, column 1 the amount from Schedule D-IS, Part 2, line 9, column B. Multiply the amount by .04 (4%) and enter the result in column 2. Enter in line 26E, column 1 the amount from Schedule D-IS, Part 2, line 9, column C. Multiply the amount by .03 (3%) and enter the result in column 2. Enter in line 26F, column 1 the amount from Schedule D-IS, Part 2, line 9, column D. Multiply the amount by .02 (2%) and enter the result in column 2. Enter in line 26G, column 1 the amount from Schedule D-IS, Part 2, line 9, column E. Multiply the amount by .01 (1%) and enter the result in column 2. Enter in line 24H, column 1 the amount from Schedule D-IS, Part 2, line 9, column F.

**Note:** Legislation provides that the personal income tax forms must provide an election to voluntarily pay tax at a rate of 5.85% on taxable income which would otherwise be taxed at a rate of 5.3%. The election to pay tax at the rate of 5.85% does not apply to items of income taxed at 12% (short-term capital gains and gains on collectibles). If choosing the optional 5.85% tax rate, multiply line 24 by .0585 and fill in the oval on Form 1, line 22.

#### **Line 27. Total Tax on Long-Term Capital Gains**

Add lines 26A, 26B, 26C, 26D, 26E, 26F and 26G of Schedule D-IS, Part 3, column 2 and enter the result here and on Form 1, line 24; Form 1-NR/PY, line 28; or Form 3M, line 7.

**Form 2** filers completing Schedule D-IS should fill in the oval on Form 2, line 31 and leave line 31 blank. You should then complete Form 2, line 32 through line 37, as applicable. Finally, you should multiply Form 2, line 37 by .05 and add that amount to the amount from Schedule D-IS, line 25 27 and enter the result in Form 2, line 38.

#### **Line 28. Available Losses for Carryover**

Enter the amount from Schedule D-IS, Part 1, line 20, only if it is a loss.