

AT. 5

Capital Gains and Basis

When you sell an asset the income is not part of your business income, it is reported separately as Capital Gains Income.

Capital Gains are taxed at a lower rate than self-employment income.

Capital Gains Income is:

Gross sales price
Less your basis in the asset
Less costs of the sale

Equals: Capital Gains Income (or Loss)

Basis is:

- a. **cost basis** which is your purchase price or cost to build
- b. **gift basis** or the donor's basis when they gave it to you or
- c. for inherited assets you have a special "**stepped-up basis.**"

Stepped-up basis is the fair market value of the asset on the date of death of the person from whom you inherited

You may increase your basis in an asset if you incur costs by making improvements to it.

Your basis in an asset decreases by the amount of the depreciation that would be allowed on your tax return—and it decreases by this amount even if you don't take the deduction on your tax return!

You need records to show your basis in any asset you sell.

Capital gains and losses from sales of business assets are reported on your tax return on Form 4797.

This resource is derived from materials developed by the University of Arkansas School of Law Agricultural Tax Training as part of the Agricultural Financial, Tax and Asset Protection (AgFTAP) partnership with the University of Arkansas Southern Risk Management Education Center and others.