PA SCHEDULE D-71

1902310059

Sale or Exchange of Property
Acquired Prior to June 1, 1971

START ➜

REV-1742 (EX) 09-19 (FI)
PA Department of Revenue

20___

OFFICIAL USE ONLY

Name of owner as shown on PA tax return:	Owner's Social Security Number

You must use Pennsylvania Schedule D-71 if you are claiming an alternative basis.

A. Kind of property and description (Example: 100 Shares of "Z" Co.)	B. Cost method code	C. Month/day/year (Date sold above dotted line. Date acquired below dotted line).	D. Gross sales price, less expense of sale	E. Cost or other basis Cost of subsequent improvements (if not purchased, attach explanation)	F. Gain or loss (d minus e)
1.				ADJ. ALT.	
2. Total net gain or loss. If a loss, fill in the oval . . . . LOSS					

COST METHOD CODES: S. Listed Security A. Appraisal P. Proration X. Deemed

1902310059

1902310059

Reset Entire Form

NEXT PAGE

PRINT FORM

pennsylvania
DEPARTMENT OF REVENUE

Pennsylvania Department of Revenue

Instructions for REV-1742

PA Schedule D-71 – Gain or Loss on Property Acquired Prior to June 1, 1971

REV-1742 IN (EX) 09-19

GENERAL INFORMATION

Generally, gain or loss on sales or other dispositions of property is calculated by subtracting the adjusted basis of a property from the value of cash and property realized on its sale or disposition. Special tax provisions, however, apply with respect to the calculation of gain on property acquired before June 1, 1971. Gain on property acquired before June 1, 1971, is calculated by subtracting the adjusted basis of the property or the alternative basis of the property, whichever is greater, from the value of cash or property received. Also, no gain or loss is realized on the sale or disposition of property acquired prior to June 1, 1971, if the value of the cash or property received is greater than the property's adjusted basis, but less than its alternative basis.

These special rules also apply if you acquired the property you sold or disposed of by gift, and the donor acquired the property before June 1, 1971.

For each asset you must also report straight-line depreciation, unless not using an optional accelerated depreciation method. You need the amount of straight-line depreciation to take advantage of Pennsylvania's Tax Benefit Rule when you sell the asset. See the PA PIT Guide for the Tax Benefit Rule.

ADJUSTED BASIS

IMPORTANT: PA PIT law does not permit the bonus depreciation elections added to the Internal Revenue Code in 2002 and 2003 and limits IRC section 179 current expensing to the expensing allowed at the time you placed the asset into service or the expensing in effect under the IRC of 1986 as amended Jan. 1, 1997.

Ordinarily, your adjusted basis for property for Pennsylvania income tax purposes is the same as your adjusted basis for federal income tax purposes. It is the original (unadjusted) basis (original/historical cost) for the property (plus allowable expenses of acquisition):

1. Adjusted upward by the cost of capital improvements to the property, contributions of capital and gain incurred, made or recognized during your entire holding period; and
2. Adjusted downward by the annual deductions for depreciation, amortization, obsolescence or cost depletion (but not percentage depletion) allowed or allowable and recoveries of capital (such as property damage awards, casualty insurance proceeds and corporate "return of capital" distributions) received during your entire holding period.

ALTERNATIVE BASIS

Your alternative basis for property is calculated in the same manner as you calculate its adjusted basis, except for the following differences:

- You use the property's fair market value as of June 1, 1971, as the original (unadjusted) basis of the property rather than its original cost or other original basis used to calculate your adjusted basis for the property.
- You adjust upward only for the cost of capital improvements to the property, contributions of capital and gain incurred, made or recognized after May 31, 1971.
- You adjust downward only for the annual deductions for depreciation, amortization, obsolescence or cost depletion (but not percentage depletion) allowed or allowable and recoveries of capital received after May 31, 1971.

DETERMINATION OF FAIR MARKET VALUE AS OF JUNE 1, 1971

The starting point for calculating the alternative basis for property is its fair market value as of June 1, 1971. There are four ways to determine fair market value as of June 1, 1971:

1. The listed security method.
2. The appraisal method.
3. The proration method.
4. The deemed value method.

An explanation of each of these methods follows.

LISTED SECURITY

If you acquired the property prior to June 1, 1971, and it was listed on an established market or exchange on June 1, 1971, or the week preceding June 1, 1971, you must use the listed security method. If the property was listed, its fair market value on June 1, 1971 is:

- The opening price on Tuesday, June 1, 1971;
- The price of the last sale during the preceding week, if not traded on Tuesday, June 1, 1971; or
- The average of the high and low price or the average of the bid and asked quotations on Tuesday, June 1, 1971, whichever is appropriate, if not traded on June 1, 1971, and during the week preceding June 1, 1971.

APPRAISAL

You may use an appraisal of current fair market value made on or about June 1, 1971, or a subsequent apprais-cal of fair market value as of June 1, 1971, if the following conditions are met:

- A copy of the appraisal is attached to your return.
- The appraisal specifically excludes the value of any improvements made after May 31, 1971.
- The appraisal is bona fide, independent and written by a competent appraiser of recognized standing and ability.

PRORATION METHOD

PROPERTY FORMULA

If no adjustment to original basis is required to determine the property's adjusted basis for Pennsylvania income tax purposes, the fair market value of an asset as of June 1, 1971, may be determined in accordance with the following property value formula:

Property's Value as of 6/1/71 =
Current Fair Market Value of Property x A +
Historic Cost of Property x B

1. A is a fraction. The numerator is the number of full calendar months the property was held prior to June 1, 1971. The denominator is the number of full calendar months in the taxpayer's entire holding period for the property.
2. B is a fraction. The numerator is the number of full calendar months the property was held after May 31, 1971. The denominator is the number of full calendar months in the taxpayer's entire holding period for the property; and
3. The Historic Cost of Property is its purchase price if acquired by purchase or its fair market value on the date of death of the decedent if acquired by inheritance.

NOTE: For all calculations involving any proration method, observe the following rules:

- Round all decimals to four digits.
- For purposes of determining holding periods, a calendar month begins on the first day of the month and ends on the last day of the month. If purchase or acquisition occurs on any day other than the first day of the month, the holding period begins on the first day of the following month. If disposition occurs on any day other than the last day of the month, the holding period ends on the last day of the preceding month.

EXAMPLE: Allen purchased land for $1,000 on April 1, 1964. On December 31, 1987, Allen sold the land for $15,000. Allen held the land for 285 full calendar months. 86 months were before June 1, 1971, and 199 months were after May 31, 1971. Using the formula above, the June 1, 1971 Property Value is $5,224, calculated as follows:

($\$15{,}000 \times \frac{86 \text{ mos.}}{285 \text{ mos.}} = \$4{,}526$) +

($\$1{,}000 \times \frac{199 \text{ mos.}}{285 \text{ mos.}} = \$698$)

$4,526 + $698 = $5,224

PROPERTY FORMULA ADJUSTMENTS

If adjustments to original basis are required to determine the property's adjusted basis for PA purposes, you may also be required to make additional computations to adjust your current fair market value and historic cost data before using the property value formula:

CAPITAL IMPROVEMENTS

If the only required adjustment to original basis to determine the property's adjusted basis for PA purposes is for the cost of capital improvements to the property, you will need to adjust your current fair market value data before using it in the property value formula. You also need to compute the June 1, 1971 value of improvements made before June 1, 1971, using the improvement value formula. Use the following steps to make the adjustments and computations:

Step 1. The historic cost, holding period and current fair market value of each improvement to property made during your holding period must be separately determined.

Step 2. For each improvement to property made before June 1, 1971, use the following improvement value formula to compute its fair market value as of June 1, 1971.

Improvement's Value as of June 1, 1971 =

Current Fair Market Value of Improvement x C +

Historic Cost of Improvement x D

- C is a fraction. The numerator is the number of full calendar months from the date of the improvement to June 1, 1971. The denominator is the number of full calendar months in the taxpayer's entire holding period for the improvement.
- D is a fraction. The numerator is the number of full calendar months the improvement was held after May 31, 1971. The denominator is the number of full calendar months in the taxpayer's entire holding period for the improvement.

Step 3. Subtract the total fair market value of all improvements to property (including improvements made after May 31, 1971) from the current fair market value of the property to determine its fair market value (less improvements) before computing its

June 1, 1971 value using the property value formula.

Step 4. Total the amounts calculated in Steps 2 and 3. This total is the property's fair market value as of June 1, 1971.

EXAMPLE: Karen purchased land for $1,000 on April 1, 1964. Karen built storage facilities on the land on July 1, 1968, at a cost of $12,000. On September 1, 1983, Karen built additional storage facilities at a cost of $36,000. On Dec. 31, 1987, Karen sold the entire property (land and buildings) for $160,000. The current fair market value of the pre-1971 storage facilities is $58,000; the other storage facilities, $60,000. The June 1, 1971 value of the pre-1971 improvements is $18,800, calculated as follows:

$$(\$58{,}000 \times \frac{35 \text{ mos.}}{234 \text{ mos.}} = \$8{,}675) +$$

$$(\$12{,}000 \times \frac{199 \text{ mos.}}{234 \text{ mos.}} = \$10{,}205)$$

$$\$8{,}675 + \$10{,}205 = \$18{,}880$$

The June 1, 1971 value of the land is $13,372, calculated as follows:

A. Current fair market share of land =

$$\$160{,}000 - (\$58{,}000 + 60{,}000) = \$42{,}000$$

B. $$(\$42{,}000 \times \frac{86 \text{ mos.}}{285 \text{ mos.}} = \$12{,}674) +$$

$$(\$1{,}000 \times \frac{199 \text{ mos.}}{285 \text{ mos.}} = \$698)$$

$$\$12{,}674 + \$698 = \$13{,}372$$

The June 1, 1971 value of the land and improvements is $32,252, calculated as follows:

$$\$18{,}880 + \$13{,}372 = \$32{,}252.$$

CONTRIBUTIONS OF CAPITAL AND RECOVERIES OF CAPITAL

If adjustments to original basis are required to determine the property's adjusted basis for Pennsylvania income tax purposes because of contributions of capital or recoveries of capital made or received after you acquired the property, you may need to adjust your historic cost data before using it in the property value formula. Use the following steps to determine the amount of the adjustment:

Step 1. Determine the date and amount of each contribution of capital and recovery of capital.

Step 2. Multiply each contribution of capital by a fraction, the numerator of which is the number of full calendar months in the taxpayer's entire holding period, and the denominator of which is the number of full calendar months between the date of the contribution and the date of disposition of the property.

Step 3. Total the amounts computed in Step 2.

Step 4. Multiply the amount of each recovery of capital by a fraction, the numerator of which is the number of full calendar months in the taxpayer's entire holding period, and the denominator of which is the number of full calendar months between the date of the recovery and the date of disposition of the property.

Step 5. Total the amounts computed in Step 4.

Step 6. Subtract the total computed in Step 5 from the total computed in Step 3.

Step 7. If the amount computed in Step 6 is greater than zero, you must increase your historic cost by the amount computed in Step 6. If less than zero, you must reduce your historic cost by subtracting the amount computed in Step 6. If zero, no adjustment to historic cost is necessary.

EXAMPLE: Bill purchased a 30 percent interest in PVB Partnership for $12,000 on Aug. 1, 1968. On Sept. 1, 1969, Bill contributed another $6,000. On July 1, 1970, PVB distributed partnership property worth $8,000 to Bill. On Feb. 28, 1987, Bill sold his partnership interest for $47,000. Bill held his partnership interest for 223 months. From Sept. 1, 1969, the date of the contribution, to the date of sale is 210 months. The number of months from the July 1, 1970 distribution to Bill to the date of sale is 200 months. The adjustment to historic cost is calculated using the steps below:

Step 1. Value of contribution 9/1/69 - $6,000
Value of distribution 7/1/70 - $8,000

Step 2. Historic value of contribution to the partnership
$$\$6{,}000 \times \frac{223}{210} = \$6{,}371$$

Step 3. Total historic value of contribution - $6,371

Step 4. Historic value of distribution from the partnership
$$\$8{,}000 \times \frac{223}{200} = \$8{,}920$$

Step 5. Total historic value of distribution - $8,920

Step 6. Net adjustment to historic cost
$6,371 - $8,920 = ($2,549)

Step 7. Historic cost as adjusted
$12,000 - $2,549 = $9,451

The adjusted historic cost would then be used to calculate the June 1, 1971 value as in Example 1.

⚠ **IMPORTANT:** The proration method may not be used if you suffered a loss from fire, storm or other casualty or incurred demolition costs or losses during your holding period or if you acquired the property by gift after May 31, 1971. It also may not be used if the entity in which you hold a property interest was a party to a reorganization, consolidation or merger or if other events have transpired during your holding period which would contraindicate its use.

DEEMED VALUE

If you cannot determine the value of a property as of June 1, 1971, using the listed security, appraisal or proration method, the value of the property as of June 1, 1971, shall be deemed to be its adjusted basis as of June 1, 1971, if determinable, or zero, if not determinable.

CAUTION: See the instructions for Column F to determine which basis (adjusted or alternative) to use when calculating your gain or loss.

LINE INSTRUCTIONS

LINE 1

COLUMN A

List and describe the property sold or otherwise converted into cash or other property. For example, name of company and number of shares, address of property, etc.

COLUMN B

List the method used for computing your alternative basis (Listed Security “S”; Appraisal “A”; Proration “P” or Deemed “X”).

COLUMN C

Above the dotted line, enter the month, day and year the property was sold. Below the dotted line, enter the month, day and year the property was acquired.

COLUMN D

List the gross sales price or fair market value of cash and property received less applicable expenses of sale.

COLUMN E

Below the dotted line, enter alternative basis of the property, if acquired before June 1, 1971. The basis as determined here may also be used on PA Schedule 19, Sale of a Principal Residence, and PA Schedule D-1, Computation of Installment Sale Income (REV-1689).

COLUMN F

If the property is income-producing property acquired as an investment (for example, capital stock, interest in a partnership or other business organization, rental property, patent, copyright, etc.), or if you held the property in connection with a business, profession or occupation when you disposed of it (and the property would not be includable in inventory), use the following instructions to compute your gain or loss.

- For property acquired before June 1, 1971. If your adjusted basis is greater than Column D, you have a loss. Subtract Column D from your adjusted basis to compute your loss and enter it in Column F.
- For property acquired before June 1, 1971. If both the adjusted basis and alternative basis are less than Column D, you have a gain. Subtract the larger of the adjusted basis or alternative basis from Column D to compute your gain and enter it in Column F.
- For property acquired before June 1, 1971. If your adjusted basis is not greater than Column D, and your alternative basis is not less than Column D, you do not have a gain or a loss. Enter a zero in Column F.

  If the property was other than income-producing property, use the following instructions.

- For property acquired before June 1, 1971. If both the adjusted basis and alternative basis are less than Column D, subtract the larger of the adjusted basis or the alternative basis from Column D to compute your gain. Enter your gain in Column F.
- If the adjusted basis is not less than Column D, you do not have either a gain or loss. Enter a zero in column F.

LINE 2

Subtotal Column F

If a gain, enter the amount on the appropriate line of the Pennsylvania income tax return you are filing.