

IRS Fact Sheet

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Qualified Dividends and Capital Gain Tax Worksheet: An Alternative to Schedule D

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Although many investors use Schedule D to get the benefit of lower capital gains tax rates, others can still use a worksheet in the tax instructions to skip Schedule D entirely.

Lower Tax Rates

The Jobs and Growth Tax Relief Reconciliation Act of 2003 lowered the maximum capital gains tax rates from eight or 10 percent to five percent and from 20 percent to 15 percent. These rates apply to most sales, exchanges, and conversions – including installment payments received – after May 5, 2003, and before 2009. There was no change in the rates for gains taxed at 25 or 28 percent. The Act also applied the new rates to qualified dividends received after 2002 and before 2009.

The IRS added several lines to Schedule D, Capital Gains and Losses, to capture the different rates that apply during 2003 and to include the dividend tax break. Schedule D will be much shorter for 2004, when one set of rates will apply for the whole year.

Worksheet Alternative

For several years, the IRS has provided a tax computation worksheet in the Form 1040 and 1040A instructions for certain investors to get the benefit of the lower capital gains rates without the need to complete Schedule D. Taxpayers who had gains or losses from the sale, exchange, or conversion of investments or certain other items must use Schedule D and cannot use Form 1040A to file their return.

For 2003, the IRS added qualified dividends and the new rates to the worksheet so that millions of taxpayers will still be able to get their full tax benefits without the Schedule D.

The worksheet is for taxpayers with dividend income only or those whose only capital gains are capital gain distributions reported in box 2a or 2b of Form 1099-DIV that were received from mutual funds, other regulated investment companies, or real estate investment trusts. Taxpayers must still use Schedule D if any amount is reported in box 2c, 2d, 2e, or 2f of Form 1099-DIV or in certain cases when Form 4952 is being filed. See the instructions for Form 1040, line 13a, for more details.