



CAPE CORAL ACCOUNTING SERVICE, INC.

Established 1961

On May 15, the IRS notified tax software companies that it had discovered an error in the instructions for the Tax Worksheet for the 2018 Schedule D, *Capital Gains and Losses*. The IRS explained that the tax calculation did not reflect the new regular tax rates and brackets for certain Schedule D filers who had 28% rate gain, which is taxed at a maximum rate of 28%, reported on line 18 of Schedule D or unrecaptured Sec. 1250 gain, which is taxed at a maximum rate of 25%, reported on line 19 of Schedule D, as a result of changes in the Tax Cuts and Jobs Act.

The IRS advised anyone who downloaded those instructions before May 16, 2019, to download them again. It noted that all returns filed after May 15 should reflect the new calculation and that IRS will update any returns filed after May 15 to reflect the correct tax using the new calculation. Therefore, taxpayers who filed using the incorrect worksheet do not have to file an amended return or call the IRS. The Service noted that it is reviewing returns submitted before May 16 and will provide more information about this later.

The IRS maintained that because it had already provided the corrected worksheet to its tax software partners, anyone filing a 2018 return, including those with extensions, after May 15, 2019, should not be affected by the error. Taxpayers reporting these types of capital gain transactions usually obtain filing extensions from the IRS. For that reason, the IRS believes that most affected taxpayers have not filed yet. The corrected worksheet results in a lower regular tax for most taxpayers and a higher regular tax for a small number of taxpayers.

Most taxpayers who file Schedule D do not have amounts on line 18, which contains capital gain taxed at the 28% rate, or line 19, where unrecaptured Sec. 1250 gain is reported. Those taxpayers would check "Yes" on line 20, which directs them to complete the Qualified Dividends and Capital Gain Tax Worksheet, and would not use the Schedule D Tax Worksheet to figure their regular tax.

The IRS corrected the Schedule D Tax Worksheet in the Instructions for Schedule D (Form 1040, *U.S. Individual Income Tax Return*) by renumbering line 18 as line 18a, adding new lines 18b and 18c, and updating the text on line 19 to reflect those changes.

The IRS has begun to send notices to affected taxpayers, with no explanation of the tax increase or decrease. If you receive one of these letters, please notify us immediately.

Let me assure you, this was an error of the Internal Revenue Service and why no penalty is assessed to any additional tax you might owe as a result of their error.

Sincerely,

Lori Moore/Whitney Price
Cape Coral Accounting Service Inc.

3501 DEL PRADO BOULEVARD, SUITE 212 • CAPE CORAL, FLORIDA 33904
PHONE (239) 542-2558 • FAX (239) 542-2320
WEB: WWW.CAPECORALACCOUNTING.COM