

Title: Per the IRS, I have to pay taxes if I short a stock to bankruptcy

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<https://www.irs.gov/pub/irs-pdf/p550.pdf>

This is from page 55 and the key is the last part.

A short sale occurs when you agree to sell property you do not own (or own but do not wish to sell). You make this type of sale in two steps.

- You sell short. You borrow property and deliver it to a buyer.
- You close the sale.

At a later date, you either buy substantially identical property and deliver it to the lender or make delivery out of property you held at the time of the sale. Delivery of property borrowed from another lender does not satisfy this requirement. You do not realize gain or loss until delivery of property to close the short sale. You will have a capital gain or loss if the property used to close the short sale is a capital asset. The Instructions for Form 1099-B discuss when you should receive a Form 1099-B for short sales. For more information, see the Instructions for Form 1099-B.

Reporting a short sale. Report any short sale on Form 8949 in the year it closes. If a short sale closed in 2020 but you did not get a Form 1099-B for it because you entered into it before 2011, report it on a Form 8949 in Part I or Part II (whichever applies). In column (a), enter (for example) "100 sh. XYZ Co. — 2010 short sale closed." Fill in the other columns according to their instructions. Report the short sale the same way if you received a 2020 Form 1099-B that does not show proceeds (sales price).

****Exception if property becomes worthless. A different rule applies if the property sold short becomes substantially worthless. In that case, you must recognize gain as if the short sale were closed when the property became substantially worthless.****