Knueven, Schroeder & Co.
CERTIFIED PUBLIC ACCOUNTANTS
Jerome B. Schroeder, CPA
Douglas E. Schleucher, CPA
Ann E. Woolum, CPA/ABV, CBA
Timothy J. Gephart, CPA
Mark L. Schroeder, CPA
Richard D. Hillabrand, CPA
Angela L. Bursby, CPA
Jeffrey C. Quinlan, CPA

Balance sheet

Planning Capital Gains and Losses to Save on Taxes

By Makenna Ricker

Appropriate year end planning strategies for your capital gains and losses will depend on a series of factors, including your amount of regular taxable income, the tax rate that applies to your adjusted net capital gain, whether the capital gains are short- or long-term, and whether there are unrealized capital losses.

Capital Gain and Loss Basics: Net capital gain is the excess of net long-term capital gains over net short-term capital losses for a tax year. Long-term capital losses are used to offset long-term capital gains before they are used to offset short-term capital gains. Similarly, short-term capital losses must be used to offset short-term capital gains before they are used to offset long-term capital gains. Taxpayers may use up to $3,000 of total capital losses in excess of total capital gains as a deduction against ordinary income in computing adjusted gross income (AGI).

Capital Gain Tax Rates: The Tax Cuts and Jobs Act retained the 0%, 15%, and 20% rates on long-term capital gains and qualified dividends for individual taxpayers. However, for 2018-2025, these rates have their own brackets that are not tied to the ordinary income brackets. Here are the brackets for 2018:

	Single	Joint	Married Filing Separate	Head of household	Estates and Trusts
0% bracket	$0-38,600	$0-77,200	$0-38,600	$0-51,700	$0-2,600
Beginning of 15% bracket	38,601	77,201	38,601	51,700	2,601
Beginning of 20% bracket	425,801	479,001	239,501	452,401	12,701

Year-end Strategies for Capital Gains and Losses: Keeping in mind that investment factors are paramount when deciding to sell or hold capital assets, here are some year-end strategies that can produce significant tax savings.

- Taxpayers whose 2018 taxable income from long-term capital gains and other sources is below the zero rate amount should try to avoid recognizing long-term capital losses before year-end as they may receive no benefit from those losses.
- Taxpayers whose 2018 taxable income is below the zero rate amount should consider recognizing enough capital gains before year-end to take advantage of the 0% rate.
- Taxpayers who have no capital gains with other taxable income should consider selling enough loss securities to yields a $3,000 capital loss, which can be used to offset ordinary income.
- Taxpayers should consider selling capital assets showing a long-term gain this year rather than next if their gains would be subject to a higher capital gain tax rate next year. Conversely, taxpayers should put off recognizing long-term capital gains if next year's capital gain tax rate is likely to be lower.
- Time long-term capital losses for maximum effect. A taxpayer should try to avoid having long-term capital losses offset long-term capital gains since these losses will be more valuable if they are used to offset short-term capital gains.

It may pay for taxpayers who have already realized short- and long-term capital gains for 2018 to accelerate the sale of depreciated-in-value capital assets so that they yield a short-term rather than a long-term capital loss.

If we can assist you in your year-end strategies for capital gains and losses, please contact our office.

Items presented are not intended to be technically complete. Additional information may be required to make an informed decision. You cannot rely upon this information for avoiding tax penalties.