# Capital Gains and Losses

**Norman M. Golden, EA**
1900 South Norfolk Street, Suite 218
San Mateo, CA 94403-1172
(650) 212-1040
Norman@GoldenTax.com

## Capital Gains and Losses

### Capital Assets
Most property you own and use for personal or investment purposes is a capital asset. For example, a house, furniture, car, stocks, and bonds are capital assets.

### Noncapital Assets
A capital asset is any property held by you except the following.
- Stock in trade or other property included in inventory or held mainly for sale to customers.
- Accounts or notes receivable acquired in the ordinary course of a trade or business for services rendered or from the sale of stock in trade or other property held mainly for sale to customers.
- Depreciable property used in a trade or business, even if it is fully depreciated.
- Real estate used in a trade or business.
- Copyrights, literary, musical, or artistic compositions, letters or memoranda, or similar property created by the individual's personal efforts, prepared or produced for the individual, or received from a person who created the property.
- Supplies regularly used in a trade or business.

### Investment Property
Investment property is property held for the production of income or anticipated appreciation in value. A gain or loss from the sale or exchange of investment property, such as stocks and bonds, is a capital gain or loss.

## Holding Periods

Capital gains and losses must be separated according to how long you held or owned the property.

### Short-Term
The holding period for short-term capital gains and losses is one year or less.

### Long-Term
The holding period for long-term capital gains and losses is more than one year.

### Inherited Property
Inherited property is considered held long term regardless of actual time held by you, the beneficiary.

### Securities Traded on an Established Market
For securities traded on an established securities market, the holding period begins the day after the trade date the securities are purchased and ends on the trade date the securities are sold.

## Mutual Funds

A mutual fund is a regulated investment company generally created by "pooling" funds of investors to allow them to take advantage of a diversity of investments and professional management.

### Mutual Fund Basis
Shares in a mutual fund may be acquired at various times, in various quantities, and at various prices. When shares of a mutual fund are sold, it is necessary to determine which shares were sold and the basis of those shares. You can use either a cost basis or an average basis to calculate gain or loss.

### Cost Basis
Cost basis can be used only if you did not previously use an average basis for a sale of other shares in the same

# Capital Gains and Losses

mutual fund. To calculate cost basis, use one of the following methods.

- ***Specific share identification.*** The adjusted basis of specific shares can be used to calculate gain or loss if those shares are adequately identified. Adequate identification requires you to:
  1) Specify to a broker or other agent the particular shares to be sold at the time of the sale, and
  2) Receive confirmation in writing from the broker or agent within a reasonable time of your specification of the particular shares sold.
- ***First-in first-out (FIFO).*** If the shares sold cannot be identified, the oldest shares owned are considered to be sold first.

### Average Basis

Average basis is calculated by dividing the total cost of shares owned by the total number of shares owned. Once average basis is used to report gain or loss from a mutual fund, it must be used for all accounts in the same fund. However, you may use a different method of calculating the basis for other mutual funds, even those within the same family of funds.

### Transfer or Exchange of Mutual Fund Shares

Any exchange of shares in one fund for shares in another fund is treated as a sale. This is true even if shares in one fund are exchanged for shares in another fund within the same family of funds.

Reinvested dividends are dividends paid that you opt to use to buy more shares of stock rather than receive the dividends in cash. The dividends are reported as income, and the shares of stock owned and cost basis increases.

## Capital Gain Tax Rates

Tax rates that apply to net capital gain are generally lower than tax rates that apply to other income. These lower rates are called "maximum capital gain rates." Net capital gain is the amount by which net long-term capital gain for the year is more than net short-term capital loss. The maximum capital gain rates are 0%, 15%, 20%, 25%, and 28%. If tax is calculated using the maximum capital gain rate, and the regular tax computation results in a lower tax, the regular tax computation applies.



**2023 Long-Term Capital Gain Maximum Tax Rates**

| *Taxable Income* | *Maximum Rate* | *Taxable Income* | *Maximum Rate* |
|---|---|---|---|
| **Single** | | **MFJ or QSS** | |
| $0 to $44,625 | 0% | $0 to 89,250 | 0% |
| $44,626 to $492,300 | 15% | $89,251 to $553,850 | 15% |
| $492,301 and over | 20% | $553,851 and over | 20% |
| **HOH** | | **MFS** | |
| $0 to 59,750 | 0% | $0 to 44,625 | 0% |
| $59,751 to $523,050 | 15% | $44,626 to $276,900 | 15% |
| $523,051 and over | 20% | $276,901 and over | 20% |
| **Estates and Trusts** | | | |
| $0 to $3,000 | 0% | | |
| $3,001 to $14,650 | 15% | | |
| $14,651 and over | 20% | | |

## Special Circumstances

| | | |
|---|---|---|
| **Long-Term Capital Gain Tax Rates** | 25% | • Gain attributable to straight-line depreciation (maximum rate on section 1250 real property). |
| | 28% | • Gain or loss from sale or exchange of collectibles.<br>• Taxable part of gain from the sale of qualified small business stock. |

***Note:*** These rates apply when taxable income exceeds the 24% tax bracket for regular income tax purposes.

## Capital Gain Distributions

Capital gain distributions are paid by a mutual fund or real estate investment trust (REIT) from net realized long-term capital gains.

## Capital Loss Limitation/Carryover

### Capital Loss Limitation

If capital losses are more than capital gains, the difference must be deducted even if there is no ordinary income to offset it. The annual limit on the amount of capital loss that can be deducted is $3,000 ($1,500 for Married Filing Separately).

## Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 73.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.