Capital Gains

Investors can retain tax over capital gains

Investors who have purchased stock and mutual fund shares at different times and different prices are allowed to choose which shares to sell in order to produce the most favorable tax consequences. You can, for example, direct your broker to sell shares with a high tax basis (basically, what you paid for them) to limit the amount of profit you must report to the IRS or, if the shares have fallen in value, to maximize losses to offset other taxable gains. (Your gain or loss is the difference between your basis and the proceeds of the sale.)

Capital Gains – 0% capital gains rates survives

Zero Percent Rate

You have to consider there is a 0% tax rate, one of the common mistakes that taxpayers make is conflating a zero percent rate with being exempt from tax: it is not the same thing. In some instances, if you are exempt from tax (or a specific kind of tax), you don't have to file a tax return at all. Examples include taxpayers who do not earn enough income during the year to be subject to meet the income requirements for filing a return.

That's not necessarily the same as being taxed at a zero percent rate. You may receive income that is taxed at zero percent but is still reportable. Long Term Capital Gains: A good example is the zero percent tax rate on long-term capital gains. It's not an exemption: long term capital gains are taxed at zero percent for taxpayers in the 15% marginal tax rate or below. If you are required to file a tax return, those transactions are still reportable even if they are not taxable.

It may be the case that you are required to file a tax return (for example, you have self-employment income of more than $400) but because of your exemptions and credits, you are ultimately taxed at a zero percent rate. You'll still need to report that income.

You might be thinking if you don't file when the rate is zero anyway or you decide not to file a tax return, the statute of limitations never starts running: that means that the Internal Revenue Service (IRS) could audit you indefinitely. If you do file but opt out of reporting certain transactions, you could extend the statute of limitations. Also, keep in mind that certain tax forms which are sent to the IRS - like forms 1099-B which report your capital gains or losses- sometime the brokers reported the basis sometime not- even you have losses in that case don't just think there are losses and you don't have to file or report this form 1099B transactions. Don't give the IRS a reason or more time to look at your returns: report properly - even if the result is zero tax.

If you have questions about whether you need to report certain transactions, check with us for more information.

Long-Term Capital Gains Tax Rates:

Tax rates on long-term capital gains (i.e., gains from the sale of capital assets held for more than one year) and qualified dividends did not change for 2023. However, the income thresholds to qualify for the various rates were adjusted for inflation.

The new law retains the favorable tax treatment granted long-term capital gains and qualified dividends, imposing rates of 0%, 15%, 20% or 23.8%, depending on your total income.

In 2023, the 0% rate applies for individual taxpayers with taxable income up to $44,625 on single returns ($41,675 for 2022), $59,750 for head-of-household filers ($55,800 for 2022), and $89,250 for joint returns ($83,350 for 2023).

The 20% rate for 2023 starts at $492,301 for singles ($459,751 for 2022), $523,051 for heads of household ($488,501 for 2022), and $553,851 for couples filing jointly ($517,201 for 2022).

The 15% rate is for filers with taxable incomes between the 0% and 20% breakpoints.

The 3.8% surtax on net investment income stays the same for 2023. It kicks in for single people with modified adjusted gross income over $200,000 and for joint filers with modified AGI over $250,000.

Another big win, Section 1202 of the new tax law allows shareholders of startups to sell **their stock after five years, with no tax on the first $5 million of gain.** That is pretty generous.

1031 Exchange – like kind Exchanges Survives... only for Real Estates

Generally, an exchange of property is a taxable transaction, just like a sale. But the law includes an exception when investment or business property is traded for similar property. Any gain that would be triggered by the sale of such property is deferred in the case of a like-kind exchange. This break has applied to assets such as real estate and tangible personal property such as heavy equipment and artwork.

Going forward, though, **the new law restricts its use to like-kind exchanges of real estate,** such as trading one rental property for another. It's estimated that the change will cost affected taxpayers more than $30 billion over the next ten years.