

Understanding Capital Gains

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A capital gain is generated from the sale of a capital asset, generally an investment-type asset. Not all capital gains are considered equal in the eyes of the IRS. A gain from the sale of a capital asset held for less than a year is considered a short-term capital gain and is taxed at ordinary income tax rates. A gain from the sale of a capital asset held for more than a year is considered a long-term capital gain and is taxed at more favorable rates. The IRS requires taxpayers to combine all short-term and long-term capital gains and losses to determine the net capital gain or loss. If the total results in a net short-term gain, the ordinary income tax rates apply. If the total results in a net long-term capital gain, it is taxed at either 0%, 15% or 20%. If the net amount results in a loss, taxpayers may deduct up to \$3,000 of the loss for that year and carry forward the remaining.

As mentioned above, net long-term capital gains have their own tax bracket and the tax is computed separately from that of ordinary income. However, a taxpayer's taxable income is used to determine which tax bracket applies to the net capital gain. For tax years beginning in 2022, net capital gains are taxed as follows:

- 0 percent if taxable income is less \$83,350 if married filing jointly or surviving spouse, less than \$55,800 if head of household, less than \$41,675 if single or married filing separately, and \$2,800 for an estate or trust;
- 15 percent if taxable income is less than \$517,200 if married filing jointly or surviving spouse, less than \$488,500 if head of household, less than \$459,750 if single, less than \$258,600 if married filing separately, and less than \$13,700 for an estate or trust;
- 20 percent if taxable income is at least \$517,200 if married filing jointly or surviving spouse, at least \$488,500 if head of household, at least \$459,750 if single, at least \$258,600 if married filing separately, and at least \$13,700 for an estate or trust.

It's important to review your income tax situation before year-end to see if there are ways to reduce your tax liability. There may be opportunities to reduce your taxable income through itemized deductions, business deductions, or others to take advantage of the 0% or 15% tax bracket for any capital gains. If you have any questions or would like to review your capital gains tax impact, please reach out to us.

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