

Understanding Capital Gains and Losses

By Charles Clar

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This feature deals with USA tax laws and how you can use them to your advantage. It is made available on a more or less weekly basis.

Understanding Capital Gains and Losses

There is a definite financial incentive in the tax code to sell a capital asset, such as a stock, after you've owned it more than one year. This is because profits from capital assets held one year or less are taxed just like wages, interest, dividends, and net profits from your business. These top income tax rates still exceed 39 percent.

By comparison, most types of capital assets held more than one year are taxed at a maximum rate of 20 percent. For investors in the 15 percent tax bracket, the rate is 10 percent, or 8 percent for assets held more than five years.

Do make sure you understand these rules as you make decisions on whether to sell now or wait until 2002 or later. However, tax considerations should almost never be the principal reason you buy or sell capital assets.

First you should analyze the realistic potential for future value appreciation before you decide to wait for the lower capital gains rate. Then figure in the tax consequences of your decision. If you must have the money right now, holding period is obviously of secondary importance.

A capital asset is practically anything you own and use for personal or investment purposes. Your house and its furnishings are capital assets. So are stocks and bonds and coins and artwork and automobiles and vacant land and the worthless loans (personal bad debts) we talked about last week.

The difference between the sales price and the purchase price of a capital asset is either a capital gain or a capital loss. The tax world is full of rules on how such gains or losses (plus or minus other

mysterious adjustments) are taxed.

You're going to learn how different types of capital assets are taxed and why following some simple procedures can save you money. Next week we'll talk about selling your house.

As always, PLEASE make sure you read and understand the fine print. It wouldn't be taxes in America otherwise!

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